The Fabric of Our Organization

Charles H. Cotros, Chairman and Chief Executive Officer (left)
Donald W. Slager, President and Chief Operating Officer (right)

LETTER TO SHAREHOLDERS

More than a century and a half ago, Ralph Waldo Emerson said that what lies behind us and what lies before us are small matters compared to what lies within us. You don't have to be an authority on the thinking of nineteenth century philosophers to recognize the timeless power of that sentiment.

During 2004, we took some time to reflect on our past at Allied, where we've been and how we came to be a $5 billion company. We also spent a fair amount of time considering our future, where we want to take this company and how we can get there. Most importantly, as Emerson might agree, we devoted a great deal of time exploring what lies within us.

From this introspection, we confirmed our belief that Allied is a company full of promise, with a strong well-positioned asset base, first-rate operating talent and dedicated employees. It has a supportive capital structure with solid cash flow and ample liquidity.

We also learned we have much opportunity for improvement. To seize that opportunity, we developed and implemented a comprehensive standards and best practices program called Excellence Driven or XD. It focuses on 10 fundamental Allied Standards and it includes detailed plans with clear and measurable goals.

As part of this program, our team has created detailed market plans for roughly half of our major markets, which contribute more than two-thirds of our operating income. These plans lay out the competitive landscape, financial returns, asset position and waste flow of each market, and they'll serve as the basis for Allied's market-based sales strategy. They also will serve as a basis for a number of capital reinvestment and internal waste flow decisions.

Another significant development has been the realignment of our operating structure, which eliminated the uppermost level of the field organization and reduced the number of regions from 12 to nine. This adjustment helped us enhance our focus, communications and accountability throughout

Tailor-Made Leadership

During the past year, Allied has implemented a strategy focused on building and developing our business from within. In pursuit of this goal, the Board of Directors enlisted the expertise of Charles Cotros as Chairman and Chief Executive Officer. His role, which was designed to be temporary, is intended to allow the senior management team more time to focus on the operations of the company and less time on administrative functions.

Charles has had a long, distinguished career in the food-service industry. He rose through the operational ranks of SYSCO Corporation, where he ultimately served as Chairman and CEO of that Fortune 100 company.

He not only possesses the same entrepreneurial spirit that many of us at Allied share, but he also brings a wealth of experience from a transportation-based industry that has successfully moved through the various phases of consolidation and growth.

Leading the company in its drive for excellence is Allied's Chief Operating Officer Don Slager, who accepted a promotion to President in January 2005. Don has demonstrated strong leadership at many levels throughout his career with Allied and in the industry during the past 25 years. We're confident he and his team will effectively execute our ambitious operating plans.

the company, while providing more direct support for improvement in areas such as revenue enhancements, operations cost reduction, human resources and safety.

Yet, what we're doing here goes far beyond cost reduction, productivity improvement and revenue enhancement initiatives. We're reinventing Allied, how we do business and how we achieve success. We have moved away from a business model geared toward growth through acquisitions, and have implemented a strategy that focuses on building and developing our own business and assets within our markets.

Several leadership changes have taken place or are under way to help facilitate this shift from external growth to internal growth. This process involves welcoming new faces to the team, bidding farewell to some long-time colleagues, and creating new leadership opportunities for each of us.

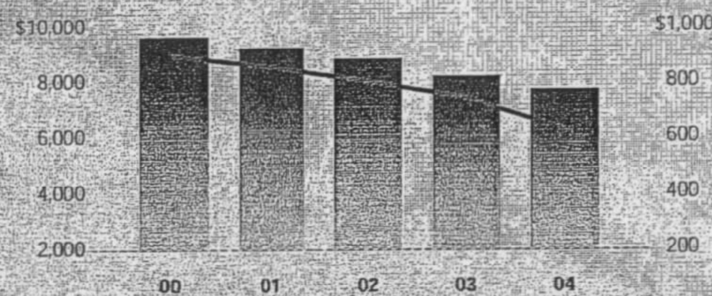
The Board also has initiated a search for a new Chairman and CEO. Our objectives are to find someone from outside the company who has operated in a large public company environment, has proven leadership skills, is a good communicator and fits well with the management team.

As far as operational results are concerned, admittedly, 2004 was a disappointing year. While our landfill and collection operations generally remained stable, we just didn't see the kind of growth we had anticipated in early 2004 as our business continued to lag behind the slow economic recovery. However, we're pleased to report that by the fourth quarter, we had achieved some promising milestones and improvements. For example, every line of business (landfill, transfer and collection) produced year-over-year growth in the fourth quarter, and all lines within the collection business (commercial, residential and industrial) reported positive year-over-year volumes.

In 2004, Allied generated free cash flow of $219 million. For the fifth consecutive year, we also continued to realize year-over-year interest savings from debt and interest rate reductions, which have contributed to cash flow for further debt reduction. In 2000, Allied paid $900 million in interest costs. Over a five-year period, we will have reduced our annual interest payments by more than $350 million.

In 2004, Allied generated free cash flow of $219 million. For the fifth consecutive year, we also continued to realize year-over-year interest savings from debt and interest rate reductions, which have contributed to cash flow for further debt reduction. In 2000, Allied paid $900 million in interest costs. Over a five-year period, we will have reduced our annual interest payments by more than $350 million.

Debt Balance vs. Cash Interest (in millions)



The "reinventing" of Allied requires a commitment to reinvesting in critical areas of the business, including our landfill assets and our fleet. In 2004, Allied spent more than $580 million on capital expenditures. We are charging ahead with plans to reduce the average age of the trucks in our fleet, which in turn will help manage escalating maintenance costs. We also have improved our average landfill density through improved landfill operations training, increased focus on soil usage and more efficient landfill equipment usage. While this does not immediately improve reported operating results, it has the effect of conserving air space, which has even more value to the returns of the company.

We also invested approximately $25 million on XD development and implementation costs in 2004. In 2005, we expect to generate a $55 million benefit from that investment. Over the long-term, the company expects annual benefits of $150 million from XD investments.

As we invest in the fleet and continue to pursue XD programs to control maintenance and other operating costs, we also are committed to maintaining a strong capital structure. Our executive financial team, led by Chief Financial Officer Pete Hathaway, maintains an active focus on the capital markets for opportunities to extend near-term maturities, reduce interest rates and improve financial flexibility. One of Allied's long-term strategic goals continues to be the achievement of investment-grade attributes.

The company has also increased its focus on customer retention. We understand the key to long-term customer relationships and growth lies in providing exemplary service. Our sales team has worked hard during the past year to standardize their best practices and enhance customer service across the board.

All things considered, we're encouraged as we move into 2005. The challenging price and volume trends of the past three years have stabilized, and the economy appears to be holding steady. We have committed to increase capital reinvestment to improve our productivity and are able to do so in a manner that still allows us to continue to repay debt and reduce the overall leverage of the company. We have a strong and capable leadership team in place, and we are looking forward to adding a new member to that team when hiring a CEO.

Our dedicated team of employees across the country worked diligently last year to create a strong platform for Allied's long-term growth, and we will continue that work throughout 2005. Our business plan is underpinned by a well-developed Excellence Driven operation that we believe will help bring Allied back to its place as the industry's most efficient operator.

Charles H. Cotros

Charles H. Cotros
Chairman and Chief Executive Officer

Don W. Slager

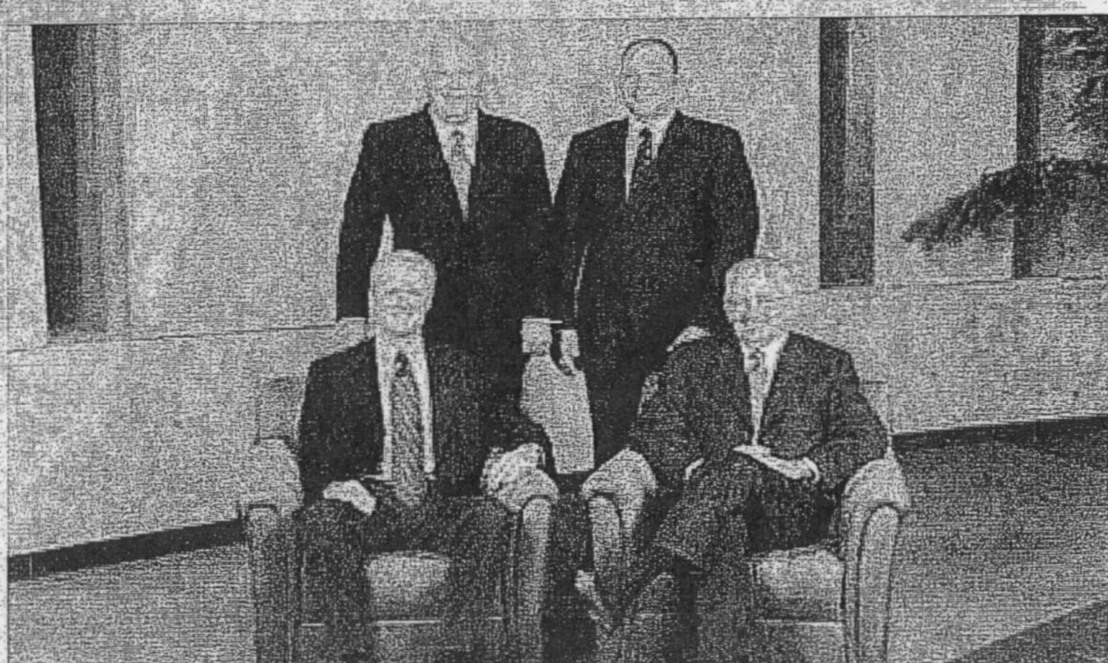
Donald W. Slager
President and Chief Operating Officer

Officers *(l to r)* **Back Row** Douglas W. Borro, VP, Program Management; David S. Hunts, VP, MIS; Michael S. Burnett, VP, Investor Relations & Corporate Communications; James D. Culver, Jr., VP, Operations Controller; James G. Van Weelden, Senior VP, Market Planning & Development; Thomas P. Martin, VP & Treasurer; Donald A. Swierenga, Senior VP, Operations; James E. Gray, Senior VP, Controller & Chief Accounting Officer **Seated** Michael J. Guilleaume, VP, Internal Audit; Jo Lynn White, VP, Deputy General Counsel & Assistant Secretary; Robert A. Alberico, VP, Human Resources; John S. Quinn, Senior VP, Finance; Dale L. Parker, VP, Tax

Regional Vice Presidents *(l to r)* **Back Row** Dan Gorske, North Central Region; Terry Brotherton, Southeast Region; Roger Groen, Midstates Region; Joe Mrjenovich, Southwest Region; Jeff Andrews, Pacific Region **Seated** Steve Meyer, Mountain Region; Jeff Hughes, Great Lakes Region; Bruce Stanas, Northeast Region; Terry Armstrong, Atlantic Region.

Board of Directors *(l to r)* **Back Row** Howard A. Lipson[1,3], Senior Managing Director, The Blackstone Group, L.P.; Leon D. Black, Founding Principal, Apollo Advisors, L.P.; J. Tomilson Hill[4], Vice Chairman, The Blackstone Group, L.P.; Dennis R. Hendrix[1,2,4,5], Retired Chairman and Chief Executive Officer, PanEnergy Corp.; Charles H. Cotros[1], Chairman and Chief Executive Officer, Allied Waste Industries, Inc.; James W. Crownover[2,4], Former Director, McKinsey & Company, Inc.; Lawrence V. Jackson[3], Executive Vice President—People Division, Wal-Mart Stores, Inc.; Warren B. Rudman[3], Of Counsel, Paul, Weiss, Rifkind, Wharton and Garrison; Michael S. Gross[4], Founding Principal, Apollo Advisors, L.P. **Seated** Robert M. Agate[2,4], Retired Senior Executive Vice President and Chief Financial Officer, Colgate-Palmolive Company; Antony P. Ressler[1,3], Founding Principal, Ares Management, LLC and Apollo Advisors, L.P.; Nolan Lehmann[2,3], President, Equus Capital Management Corporation.

[1]Executive Committee [2]Audit Committee [3]Management Development/Compensation Committee [4]Governance Committee [5]Lead Director



Executive Management *(l to r)* **Back Row** Charles H. Cotros, Chairman and Chief Executive Officer; Donald W. Slager, President and Chief Operating Officer **Seated** Peter S. Hathaway, Executive Vice President and Chief Financial Officer; Steven M. Helm, Executive Vice President, General Counsel and Corporate Secretary.

Financial Management's Commitment to Ethical Behavior and Clarity in Financial Reporting

We represent the hundreds of financial and accounting professionals at Allied Waste committed to accurately and honestly reporting the results of our business activities. We appreciate that we are the stewards of the owners of our company, the investors in our debt instruments, the public and private agencies and our fellow employees. We engage in no activities that create a conflict between our own interests and the interests of the company and its investors. We are responsible for setting an example of honest and ethical conduct for those we represent and avoiding actual or apparent conflicts of interest in personal and professional relationships and to promote ethical behavior in the work environment and the community. We are also responsible for ensuring that those we represent follow our lead. We respect those who bring concerns to our attention and we do not impose financial or accounting direction inconsistent with company policy.

Primary responsibility for the integrity, objectivity and clarity of presentation of the company's financial statements rests with us. These statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Non-financial information included in the Annual Report has also been prepared by management and is believed to be consistent with the financial statements. We believe the financial and non-financial information included in this Annual Report is accurate in all material respects, meaningful as a basis to form an opinion about the company, and presented in a clear manner.

The company's internal control framework maintains systems designed to provide reasonable assurance that our assets and resources are safeguarded against loss from unauthorized use or disposition, that transactions are executed and recorded in accordance with established procedures and to prevent significant deficiencies in our reported results. These systems are implemented through clear and accessible written policies and procedures and appropriate delegation of authority and segregation of responsibilities. These systems of internal control are reviewed, modified, and improved as changes occur in business conditions and operations and as a result of suggestions from managers, internal auditors, and independent auditors. The design and effective operation of these systems are the responsibility of the management of the company, and we believe they provide reasonable assurance that significant business activity is fairly presented in this Annual Report.

The financial statements have been audited by our independent auditors, who are given free access to all financial records and related data. We believe that our representations to the independent auditors are complete, valid and appropriate.

We will continue to support the oversight responsibilities of the Audit Committee of the Board of Directors which is comprised entirely of individuals who are not employees of the company. This Committee meets periodically and privately with the independent auditors, with the internal auditors and with the management of the company to review matters relating to the quality of the financial reporting, the internal control framework, and the scope and results of audit examinations.

As a public company enjoying the benefits of the public markets in the United States, we comply with applicable governmental laws, rules, and regulation, including the standards set by those who regulate the markets including adhering to the spirit of Regulation FD which is intended to ensure common access to material information by all investors. We strive to prepare reports consistent with that obligation and in a form we ourselves would appreciate as investors.

Sincerely,

Peter S. Hathaway
Executive Vice President and Chief Financial Officer

James E. Gray
Senior Vice President, Controller and Chief Accounting Officer

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

For the transition period from to

Commission File Number 1-14705

ALLIED WASTE INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**88-0228636**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
15880 North Greenway-Hayden Loop, Suite 100 Scottsdale, Arizona	**85260**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (480) 627-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange
Series C Senior Mandatory Convertible Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

The aggregate market value of the registrant's voting stock held by nonaffiliates of the registrant was $4,188,763,808 as of June 30, 2004.

The number of shares of the registrant's common stock, $.01 par value, outstanding at February 1, 2005 was 318,180,817.

TABLE OF CONTENTS

Unless the context requires otherwise, reference in this Form 10-K to "Allied," "we," "us" and "our", refer to Allied Waste Industries, Inc. and its consolidated subsidiaries.

PART I

Item 1. *Business*

Overview

We are the second largest non-hazardous solid waste management company in the United States. The non-hazardous solid waste industry in the United States generates approximately $42 billion of annual revenue from publicly-traded companies, municipalities and privately-held companies. Publicly-traded companies generate approximately 49% of the revenues, while municipalities and private companies generate the remaining revenues. Presently, the three largest publicly-traded companies in the waste management industry in the United States generate over 90% of the public company revenues.

We provide collection, transfer, recycling and disposal services for approximately 10 million residential, commercial and industrial customers. We serve our customers through a network of 314 collection companies, 165 transfer stations, 166 active landfills and 58 recycling facilities in 122 major markets within 37 states. We operate only in the United States and Puerto Rico. We operate as a vertically integrated company which entails picking up waste from businesses and residences and disposing of that waste in our own landfills to the extent that it is economically beneficial (referred to as internalization). This allows us greater stability in and control over the waste flow into our landfills and, therefore, greater control over the cash flow stability in our business.

Our management philosophy utilizes decentralized operating management, with centralized control functions and management oversight. We believe that this model allows us to maximize the growth and development opportunities in each of our markets and has largely contributed to our ability to operate the business efficiently, while maintaining effective controls and standards over our operations and administrative matters, including financial reporting. Since the waste collection and disposal business is a very local business, operations and opportunities differ in each of our markets. By utilizing decentralized operating management with standards for best practices, we strive to standardize the common practices across the company, while maintaining the day-to-day operating decisions at the local level, which is closest to the customer. We implement this philosophy by organizing our operations into a corporate, region and district infrastructure.

We were incorporated in Delaware in 1989. We have grown the company from a revenue base of $35 million in 1992 to over $5 billion in 2004 primarily through a series of acquisitions highlighted by the $1.5 billion acquisition of the solid waste assets of Laidlaw, Inc. (Laidlaw) in 1996 and the $9.6 billion acquisition of Browning-Ferris Industries, Inc. (BFI) in 1999. We have, and continue to, acquire smaller companies within the waste industry that either provide additional infrastructure, such as landfills and transfer stations in existing markets, or tuck into our existing collection companies and enhance our internalization and profitability in a market. Since 2001, we have funded the acquisition of companies through the proceeds from divestitures of our own assets that could not be operated in a manner consistent with our business model.

Our current business objectives are to focus on internal revenue and earnings growth and generate cash flow to invest in our vehicles, containers and equipment and to repay debt. We reported revenues of approximately $5.4 billion and $5.2 billion for the years ended December 31, 2004 and 2003, respectively. During the years ended December 31, 2004 and 2003, we generated operating cash flows of approximately $650.0 million and $783.9 million, and reinvested approximately $582.9 million and $491.8 million of capital into the business, respectively, primarily for landfill development, vehicles and containers. During 2004, we reduced our debt balance by $477.1 million to $7.8 billion through the application of cash on our balance sheet at December 31, 2003 and operating cash flows.

General information about us can be found at www.alliedwaste.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission (SEC).

Business Strategy

Our business strategy is aimed at maximizing operating cash flows to reinvest in our business and to continue to pay down debt. The components of this strategy include: (1) operating vertically integrated, non-hazardous solid waste service businesses with a high rate of waste internalization; (2) implementing best practices programs; (3) managing our businesses locally with a strong operations focus on customer service; (4) maintaining or improving our market position through internal development and incremental acquisitions; and (5) maintaining the financial capacity and effective administrative systems and controls to support on-going operations and future growth.

Vertical Integration and Internalization. Vertical integration has been and continues to be the key element of our business strategy. The fundamental objective of the vertical integration business model is to control the waste stream from the point of collection through disposal, thereby optimizing the economics of the waste stream by achieving a high rate of waste internalization. As of December 31, 2004, approximately 73% of the waste that our collection companies pick up is disposed of at our landfills. Additionally, approximately half of the waste that is disposed of at our landfills comes from our collection companies. This means that on average, each day we open our landfills, we expect that almost half of the volume received will be delivered by our own vehicles.

Across the country we have built, through market-specific acquisitions, vertically integrated operations typically consisting of collection companies, transfer stations, recycling facilities and landfills. Within our markets, we seek to strengthen our competitive position and improve our financial returns by developing and acquiring assets that provide or improve the infrastructure for a vertically integrated market and to increase the density of our collection routes or by developing previously non-permitted, non-contiguous landfill sites (greenfield landfill sites). We also may divest of operations in markets in which over the long-term we cannot successfully build a vertically integrated structure. We believe that we can realize competitive advantages by continuously implementing this strategy across existing and selected new markets in the United States.

Best Practices. At the beginning of 2004, we began efforts to implement best practice programs throughout our organization. We believe the investment we are making in implementing best practice programs in the areas of revenue enhancement and operating cost reductions will provide benefits to the overall business through improved operating margins over the long term. The programs are focused on improving sales productivity and pricing effectiveness, driver productivity through improved routing, maintenance efficiency through standardized operating practices, and reducing our costs through more effective purchasing. In addition, we are focusing on controlling cost increases associated with safety and our health and welfare programs.

Focus on Customer Service Excellence. Decentralized operations and local management characterize our operations-oriented business strategy. Historically, we have successfully focused our management development activities on recruiting and retaining operating managers with extensive industry and local market experiences. Our senior operating management averages over 20 years of industry experience. By continuing to hire and retain experienced, local market-oriented managers, we believe that we are well positioned to react to customer needs and changes in our markets and are able to capitalize on growth opportunities. The focus on customer services is supported by investing in and maintaining a quality asset base and providing training programs that maximize our operational excellence.

Internal Development and Incremental Acquisitions. We focus on achieving a sustainable rate of long-term growth and efficiently operating our assets. We intend to increase revenues by increasing collection and disposal volumes and developing greenfield landfill sites. We also intend to increase revenue by increasing the rates we charge for the services we provide. We intend to supplement this internal growth with acquisitions of operating assets, such as landfills and transfer stations, and tuck-in acquisitions of privately owned solid waste collection and disposal operations in existing markets. We are continuously evaluating our existing operating assets to determine if we are maximizing our market density and internalization. To the extent certain operating assets are not performing at efficient levels, we may examine opportunities to provide greater efficiencies through tuck-in acquisitions or ultimately determine to divest of such assets and reallocate resources to other markets. We also intend to examine opportunities when government entities privatize the operation of all or part of their solid waste systems. In addition, we seek to maintain broad domestic geographic diversification in our operations through market development initiatives.

Maintaining Financial Capacity and Infrastructure for Future Growth. We seek to implement our business strategy by maintaining sufficient financial capacity and effective administrative systems and controls. Our operating cash flows have historically been sufficient to fund our debt service, working capital and capital expenditure requirements, and we maintain a revolving line of credit capacity which has been sufficient to handle seasonal and other peak spending requirements. Cash flows available to pay down debt in excess of current year debt maturities have been applied to future maturities.

Our system of internal controls is implemented through clear policies and procedures and appropriate delegation of authority and segregation of responsibility. Our company policies establish a philosophy of conducting operations in a responsible and ethical manner, including the manner in which we handle operations that impact the surrounding environment. Senior management is committed to establishing and fostering an environment of integrity and ethical conduct. Our comprehensive internal audit function assists management in the oversight and evaluation of the effectiveness of the system of internal controls. Our system of internal controls are reviewed, tested, modified and improved as changes occur in business conditions and our operations.

In 2004, we implemented compliance with the Sarbanes-Oxley Act of 2002, Section 404 (SOX 404). Our related report on internal controls over financial reporting is included in Item 9A.

Operations

Our revenue mix (based on net revenues) for 2004 was approximately $3.9 billion collection, $436 million transfer, $643 million landfill, $235 million recycling and $128 million other. No one customer has individually accounted for more than 2% of our consolidated revenue in any of the last three years.

Collection. Collection operations involve collecting and transporting non-hazardous waste from the point of generation to the site of disposal, which may be a transfer station or a landfill. Fees relating to collection services are based on collection frequency, type of equipment furnished (if any), special handling needs, the type and volume or weight of the waste collected, the distance traveled to the transfer station or disposal facility and the cost of disposal, as well as general competitive and prevailing local economic conditions. We have approximately 13,500 collection vehicles and perform the majority of vehicle maintenance at our own maintenance facilities. Depending on the customer being served, we generally provide solid waste collection under the following four service lines:

- *Commercial.* We provide containerized non-hazardous solid waste disposal services to a wide variety of commercial and industrial customers. Commercial revenue represents approximately 34% of our collection revenue. We provide customers with containers that are designed to be lifted mechanically and emptied into a collection vehicle's compaction hopper. Our commercial containers generally range in size from one to eight cubic yards. Commercial contract terms generally range from 1 to 3 years and commonly have renewal options.

- *Residential.* We perform residential collection services under individual monthly subscriptions directly to households or under exclusive contracts with municipal governments that allow us to service all or a portion of the homes in the municipalities at established rates. Municipal contracts generally have a term of 3 to 5 years and commonly have renewal options. We seek to obtain municipal contracts that enhance the efficiency and profitability of our operations as a result of the density of collection customers within a given area. Residential revenue represents approximately 30% of our collection revenue, approximately 45% of which is subscription revenue and approximately 55% of which is municipal revenue. Prior to the end of the term of most municipal contracts, we will attempt to renegotiate the contract, and if unable to do so, will generally re-bid the contract on a sealed bid basis. We also make residential collection service arrangements directly with households. We seek to enter into residential service arrangements where the route density is high, thereby creating additional economic benefit. Residential collection fees are either paid by the municipalities out of tax revenues or service charges, or are paid directly by the residents who receive the service. We generally provide small containers to our customers that are lifted either mechanically or manually and emptied into the collection vehicle. The collection vehicle will collect the waste from many customers before traveling to a transfer station or landfill for disposal.
- *Roll-off.* Roll-off revenue represents approximately 31% of our collection revenue. We provide roll-off collection services to a wide variety of commercial and industrial customers as well as residential customers. We provide customers with containers that are designed to be lifted mechanically and loaded onto the collection vehicle. Our roll-off containers generally range in size from 20 to 40 cubic yards. The collection vehicle returns to the transfer station or landfill after pulling the container from each customer. Contracts for roll-off containers may provide for temporary (such as the removal of waste from a construction site) or ongoing services.
- *Recycling.* Recycling collection revenue represents approximately 5% of our total collection revenue. Recycling collection services include curbside collection of recyclable materials for residential customers and commercial and industrial collection of recyclable materials. We generally charge recycling fees based on the service sought by the customer. The customer pays for the cost of removing, sorting and transferring recyclable materials downstream in the recycling process. The collection vehicle will collect the waste from many customers before traveling to a material recovery facility to deliver the recyclables.

Transfer Stations. A transfer station is a facility where solid waste collected by third-party and company-owned vehicles is consolidated and then transferred to and compacted in large, specially constructed trailers for transportation to disposal facilities. This consolidation reduces costs by increasing the density of the waste being transported over long distances through compaction and by improving utilization of collection personnel and equipment. We generally base fees upon such factors as the type and volume or weight of the waste transferred, the transport distance to the disposal facility, the cost of disposal and general competitive and economic conditions. We believe that as increased regulations and public pressure restrict the development of landfills in urban and suburban areas, transfer stations will continue to be used as an efficient means to transport waste over longer distances to available landfills.

Landfills. Non-hazardous solid waste landfills are the primary method of disposal of solid waste in the United States. Currently, a landfill must be designed, permitted, operated and closed in compliance with comprehensive federal, state and local regulations, most of which are promulgated under Subtitle D of the Resource Conservation and Recovery Act of 1976, as amended (RCRA). Operating procedures include excavation of earth, spreading and compacting of waste, and covering of waste with earth or other inert material. Disposal fees and the cost of transferring solid waste to the disposal facility place an economic restriction on the geographic scope of landfill operations in a particular market. Access to a disposal facility, such as a landfill, is necessary for all solid waste management companies. While access to disposal facilities owned or operated by unaffiliated parties can generally be obtained, we prefer, in keeping with our business strategy, to own or operate our own disposal facilities. This strategy ensures access and allows us to internalize disposal fees. Approximately half of our landfill volume is delivered by our collection vehicles. Additionally, approximately one-third of our landfill volumes are under contracts with third-party collection companies with an average duration from one to five years. This adds to the stability of our business.

We have a network of 166 owned or operated active landfills with operating lives ranging from 1 to over 150 years. Based on available capacity using annual volumes, the average life of our landfills approximates 36 years.

Recycling — Commodity. We receive mixed waste materials at a materials recovery facility, which is often integrated into, or contiguous to, a transfer or collection operation. At the facility, we sort, separate, accumulate, bind or place in a container and ready for transport materials such as paper, cardboard, plastic, aluminum and other metals. We also engage in organic materials recycling and/or disposal. Cardboard and various grades of paper represented approximately 72% of our processed recyclable product in 2004. The purchaser of the recyclables generally pays for the sorted materials based on fluctuating spot-market prices. We seek to mitigate exposure to fluctuating commodity prices by entering into contractual agreements that set a minimum sales price on the recyclables and when possible passing through profit or loss from the sale of recyclables to customers.

Organization, Marketing and Sales

Our management philosophy utilizes decentralized operating management, with centralized control functions and management oversight. We believe that this model allows us to maximize the growth and development opportunities in each of our markets and has largely contributed to our ability to operate the business efficiently, while maintaining effective controls and standards over our operations and administrative matters, including financial reporting. Since the waste collection and disposal business is a very local business, operations and opportunities differ in each of our markets. By utilizing decentralized operating management with standards for best practices, we strive to standardize the common practices across the company, while maintaining the day-to-day operating decisions at the local level, which is closest to the customer. We implement this philosophy by organizing our operations into a corporate, region and district infrastructure.

During the fourth quarter of 2004, we modified our field organizational structure by eliminating our uppermost field level, the "areas", and consolidating our regions to nine from twelve. This was done as part of our efforts to maximize efficiency and improve communications. Our nine geographic regions are: Atlantic, Great Lakes, Midstates, Mountain, North Central, Northeast, Pacific, Southeast and Southwest (See Note 16 to our consolidated financial statements included under Item 8 of this Form 10-K for a summary of revenues, profitability and total assets of our nine geographic regional operating segments.) The geographic regions are further divided into several operating districts and each district contains a group of specific business units with individual site operations. Each of our regions, and substantially all of our districts, include collection, transfer, recycling and disposal services, which facilitates efficient and cost-effective waste handling and allows the regions and districts to maximize the efficiencies from the internalization of waste. This organization structure provides our field operators the ability and flexibility to manage profitability within their respective geographic regions, while providing guidance and resources to the local management.

Corporate management establishes long-term business plans, outlines business and financial goals, implements policies and procedures and evaluates effectiveness to provide for uniform controls throughout the organization. Regional management develops tactical plans and implements and monitors compliance with policies and procedures to achieve the business goals and objectives. District management is responsible for market planning and development, oversight and coordination of the local markets, and building and maintaining vital community relationships. Business unit management is responsible for customer service, operational and local market execution in accordance with business plans and compliance with policies and procedures.

The regions are responsible for, among other things, implementation of and compliance with corporate-wide policies and initiatives, business unit reviews and analyses, personnel development and training and providing functional expertise. All regional managers and most district managers have responsibility for all phases of the vertical integration model including collection, transfer, recycling and disposal. The regional staff consists primarily of a vice president, controller, operations manager, finance manager, sales manager, engineer, safety manager, human resource manager, materials marketing manager, landfill maintenance manager, route auditor and accounting and information systems support staff. Regional offices are typically located in a district facility in order to reduce overhead costs and to promote a close working relationship between the regional management, district and business unit personnel. Each region has between 5 to 7 districts under its management.

Districts consist of a group of specific business units ranging in size from approximately $30 million to $200 million in revenue. The districts are responsible for maximizing the use of company assets, pricing and market guidance, developing market plans, sales optimization and state government affairs. The districts consist primarily of a district manager, controller, and assistant controller.

A business unit consists of individual site operations, known as divisions, usually operating as a vertically integrated operation within a common marketplace. A division is generally comprised of a single operating unit, such as a collection facility, transfer station or a landfill. The business units are responsible for the execution of the business plans, coordinating divisions within markets, developing and maintaining customer relationships, landfill site construction, employee safety and training and local government affairs. Business unit management usually consists primarily of accounting, operations, sales and maintenance activities.

Our policy is to periodically visit each commercial account to ensure customer satisfaction and to sell additional services. In addition to calling on existing customers, each salesperson calls upon potential customers within a defined area in each market.

We also have municipal marketing representatives in most service areas who are responsible for working with each municipality or community to which we provide residential service to ensure customer satisfaction. Additionally, the municipal representatives organize and handle bids for renewal and new municipal contracts in their service area.

In addition to base salary, we compensate regional and district management through a bonus program and stock incentive plans. Compensation pursuant to the bonus and stock incentive plans is largely contingent upon meeting or exceeding various earnings and cash flow goals in the manager's geographic area of responsibility, as well as the achievement of overall company goals.

We believe in financial responsibility and reporting at the operating level and as a result, consolidate over 700 financial statements, inclusive of balance sheets, which extend to regions, districts and divisions.

Employees

At December 31, 2004, we employed approximately 26,000 employees of whom approximately 25,000 were full-time employees. Approximately 4,500 of the full-time employees were employed in clerical, administrative, and sales positions; approximately 2,500 in management; and the remaining in collection, disposal, transfer station and other operations. Approximately 29% of our employees are currently covered by collective bargaining agreements. From time to time, other operating locations of the Company may experience union organizing efforts. We have not historically experienced any significant work stoppages. We currently have no disputes or bargaining circumstances that could cause significant disruptions in our business.

Competition

The non-hazardous waste collection and disposal industry is highly competitive. In addition to small local companies, we compete with large companies and municipalities which may have greater financial and operational flexibility. We compete on the basis of price and the quality of our services. We also compete with the use of alternatives to landfill disposal because of certain state requirements to reduce landfill disposal. The non-hazardous waste collection and disposal industry is led by three large national waste management companies: Allied, Waste Management, Inc., and Republic Services, Inc. It also includes numerous regional and local companies. Many counties and municipalities that operate their own waste collection and disposal facilities have the benefits of tax-exempt financing and may control the disposal of waste collected within their jurisdictions.

We encounter competition in our disposal business on the basis of geographic location, quality of operations and alternatives to landfill disposal, such as recycling and incineration. Further, most of the states in which we operate landfills require counties and municipalities to formulate comprehensive plans to reduce the volume of solid waste deposited in landfills through waste planning, composting and recycling or other programs. Some state and local governments mandate waste reduction at the source and prohibit the disposal of certain types of wastes, such as yard wastes, at landfills.

Environmental and Other Regulations

We are subject to extensive and evolving environmental laws and regulations administered by the Environmental Protection Agency (the EPA) and various other federal, state and local environmental, zoning, health and safety agencies. These agencies periodically examine our operations to monitor compliance with such laws and regulations. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose civil or criminal penalties in case of violations. We believe that regulation of the waste industry will continue to evolve and we will adapt to such future regulatory requirements to ensure compliance.

Our operation of landfills subjects us to operational, permitting, monitoring, site maintenance, closure, post-closure and other obligations which could give rise to increased costs for compliance and corrective measures. In connection with our acquisition and continued operation of existing landfills, we must often spend considerable time, effort and money to obtain and maintain permits required to operate or increase the capacity of these landfills.

Our operations are subject to extensive regulation, principally under the following federal statutes:

The Resource Conservation and Recovery Act of 1976 as amended (RCRA). RCRA regulates the handling, transportation and disposal of hazardous and non-hazardous wastes and delegates authority to states to develop programs to ensure the safe disposal of solid wastes. On October 9, 1991, the EPA promulgated Solid Waste Disposal Facility Criteria for non-hazardous solid waste landfills under Subtitle D. Subtitle D includes location standards, facility design and operating criteria, closure and post-closure requirements, financial assurance standards and groundwater monitoring as well as corrective action standards, many of which had not commonly been in place or enforced previously at landfills. Subtitle D applies to all solid waste landfill cells that received waste after October 9, 1991, and, with limited exceptions, required all landfills to meet these requirements by October 9, 1993. Subtitle D required landfills that were not in compliance with the requirements of Subtitle D on the applicable date of implementation, which varied state by state, to close. In addition, landfills that stopped receiving waste before October 9, 1993 were not required to comply with the final cover provisions of Subtitle D. Each state must comply with Subtitle D and was required to submit a permit program designed to implement Subtitle D to the EPA for approval by April 9, 1993.

The Federal Water Pollution Control Act of 1972 as amended (the Clean Water Act). This act establishes rules regulating the discharge of pollutants into streams and other waters of the United States (as defined in the Clean Water Act) from a variety of sources, including solid waste disposal sites. If runoff from our landfills or transfer stations may be discharged into surface waters, the Clean Water Act requires us to apply for and obtain discharge permits, conduct sampling and monitoring and, under certain circumstances, reduce the quantity of pollutants in those discharges. The EPA has expanded the permit program to include storm water discharges from landfills that receive, or in the past received, industrial waste. In addition, if development may alter or affect "wetlands," we may have to obtain a permit and undertake certain mitigation measures before development may begin. This requirement is likely to affect the construction or expansion of many solid waste disposal sites, including some we own or are developing.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (CERCLA). CERCLA addresses problems created by the release or threatened release of hazardous substances (as defined in CERCLA) into the environment. CERCLA's primary mechanism for achieving remediation of such problems is to impose strict, joint and several liability for cleanup of disposal sites on current owners and operators of the site, former site owners and operators at the time of disposal, and parties who arranged for disposal at the facility (i.e. generators of the waste and transporters who select the disposal site). The costs of a CERCLA cleanup can be substantial. Liability under CERCLA is not dependent on the existence or disposal of "hazardous wastes" (as defined under RCRA), but can also be founded on the existence of even minute amounts of the more than 700 "hazardous substances" listed by the EPA.

The Clean Air Act of 1970 as amended (the Clean Air Act). The Clean Air Act provides for increased federal, state and local regulation of the emission of air pollutants. The EPA has applied the Clean Air Act to landfills. In March 1996, the EPA adopted New Source Performance Standard and Emission Guidelines (the Emission Guidelines) for municipal solid waste landfills. These regulations impose limits on air emissions from solid waste landfills. The Emission Guidelines impose two sets of emissions standards, one of which is applicable to all solid waste landfills for which construction, reconstruction or modification was commenced before May 30, 1991. The other applies to all municipal solid waste landfills for which construction, reconstruction or modification was commenced on or after May 30, 1991. The Emission Guidelines are being implemented by the states after the EPA approves the individual state's program. These guidelines, combined with the new permitting programs established under the Clean Air Act subject solid waste landfills to significant permitting requirements and, in some instances, require installation of gas recovery systems to reduce emissions to allowable limits. The EPA also regulates the emission of hazardous air pollutants from municipal landfills, and has promulgated regulations that require measures to monitor and reduce such emissions.

The Occupational Safety and Health Act of 1970 as amended (OSHA). OSHA establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated by the Occupational Safety and Health Administration, and various record keeping, disclosure and procedural requirements. Various standards, including standards for notices of hazards, safety in excavation and demolition work, and the handling of asbestos, may apply to our operations.

Future Federal Legislation. In the future, our collection, transfer and landfill operations may also be affected by legislation that may be proposed in the United States Congress that would authorize the states to enact laws governing interstate shipments of waste. Such proposed federal legislation may allow individual states to prohibit the disposal of out-of-state waste or to limit the amount of out-of-state waste that could be imported for disposal and may require states, under certain circumstances, to reduce the amount of waste exported to other states. If this or similar legislation is enacted, states in which we operate landfills could act to limit or prohibit the importation of out-of-state waste. Such state actions could adversely affect landfills within these states that receive a significant portion of waste originating from out-of-state. Our collection, transfer and landfill operations may also be affected by "flow control" legislation, which may be proposed in the United States Congress. This potential federal legislation may allow states and local governments to direct waste generated within their jurisdiction to a specific facility for disposal or processing. If this or similar legislation is enacted, state or local governments with jurisdiction over our landfills could act to limit or prohibit disposal or processing of waste in our landfills.

State Regulation. Each state in which we operate has laws and regulations governing solid waste disposal and water and air pollution and, in most cases, regulations governing the design, operation, maintenance and closure of landfills and transfer stations. We believe that several states have proposed or have considered adopting legislation that would regulate the interstate transportation and disposal of waste in their landfills. Many states have also adopted legislative and regulatory measures to mandate or encourage waste reduction at the source and waste recycling.

Our collection and landfill operations may be affected by the current trend toward laws requiring the development of waste reduction and recycling programs. For example, a number of states have enacted laws that require counties to adopt comprehensive plans to reduce, through waste planning, composting and recycling or other programs, the volume of solid waste deposited in landfills. A number of states have also taken or propose to take steps to ban or otherwise limit the disposal of certain wastes, such as yard wastes, beverage containers, newspapers, unshredded tires, lead-acid batteries and household appliances into landfills.

We have implemented and will continue to implement environmental safeguards that seek to comply with these governmental requirements.

Liability Insurance and Bonding

We carry commercial general liability, automobile liability, workers' compensation, employers' liability, directors' and officers' liability, pollution liability, and other coverage we believe is customary in the industry. We maintain high deductible programs under commercial general liability, automobile liability and workers' compensation insurance with varying deductible thresholds up to $3 million. We do not expect the impact of any known casualty, property or environmental claims to be material to our consolidated liquidity, financial position or results of operations.

We are required to provide approximately $2.7 billion of financial assurances to governmental agencies and commercial entities under applicable environmental regulations relating to our landfill operations and collection contracts and financial guarantee bonds for self-insurance. We satisfy the financial assurance requirements by providing performance bonds, letters of credit, insurance policies or trust deposits. We expect no material increase in total financial assurance requirements although the mix of financial assurance instruments may change.

Corporate Governance

Our corporate governance program reflects our commitment to integrity and high ethical standards in conducting our business. We are committed to rigorously and diligently exercising our oversight responsibilities throughout the company, managing our affairs consistent with the highest principles of business ethics and the corporate governance requirements of federal law, the SEC and the New York Stock Exchange.

The current committee charters, Corporate Governance Guidelines, Code of Business Conduct and Ethics (for all employees, officers and Board members) and Code of Ethics for Executive and Senior Financial Officers are available in print to any investor who requests them free of charge by writing to: Attention: Investor Relations, Allied Waste Industries, Inc., 15880 N. Greenway-Hayden Loop, Suite 100, Scottsdale, Arizona 85260. This information is also available on our website at www.alliedwaste.com.

Item 2. *Properties*

Our principal executive offices are located at 15880 N. Greenway-Hayden Loop, Suite 100, Scottsdale, Arizona 85260 where we currently lease approximately 105,000 square feet of office space. We currently maintain regional administrative offices in all of our regions.

Our principal property and equipment consists of land, buildings, vehicles and equipment, substantially all of which are encumbered by liens in favor of our primary lenders. We own or lease real property in the states in which we are conducting operations. At December 31, 2004, we owned or operated 314 collection companies, 165 transfer stations, 166 active solid waste landfills and 58 recycling facilities within 37 states. In aggregate, our active solid waste landfills total approximately 75,256 acres, including approximately 25,985 permitted acres. We believe that our property and equipment are adequate for our current needs.

Item 3. *Legal Proceedings*

We are involved in routine litigation that arises in the ordinary course of business. We believe that costs of settlements or judgments arising from routine litigation will not have a material adverse effect on our consolidated liquidity, financial position or results of operations. Currently, we are a party to certain proceedings with the Internal Revenue Service (IRS), in U.S. District Court for the District of Arizona, and in Texas State Courts.

On August 9, 2004, August 27, 2004, and September 30, 2004, three putative class action lawsuits were filed against us and four of our current and former officers in the U.S. District Court for the District of Arizona. The lawsuits were consolidated into a single action on November 22, 2004. On January 14, 2005, the court entered an order appointing lead plaintiffs but to date, no consolidated suit has been filed.

The complaints assert claims against all defendants under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and claims against the officers under Section 20(a) of the Securities Exchange Act. The complaints allege that from February 10, 2004, to July 27, 2004, the defendants caused false and misleading statements to be issued in our public filings and public statements regarding our anticipated second quarter 2004 results. The lawsuits seek an unspecified amount of damages. This action is in its early stages and we are not able to determine whether the outcome will have a material adverse affect on our consolidated results of operations. We intend to defend the action vigorously.

We are subject to federal, state and local environmental laws and regulations. Due to the nature of our business we are often a party to judicial or administrative proceedings involving governmental authorities and other interested parties related to environmental regulations. From time to time, we may also be subject to actions brought by citizens' groups, adjacent landowners or others in connection with the permitting and licensing of our landfills or transfer stations, or alleging personal injury, environmental damage or violations of the permits and licenses pursuant to which we operate.

In June 1999, neighboring parties and the county drainage district filed a lawsuit seeking to prevent BFI from obtaining a vertical elevation expansion permit at one of our landfills in Texas. In 2001, the expansion permit was granted. The parties opposing the expansion permit continued to pursue their efforts in preventing the expansion permit. In November 2003, a judgment issued by a state trial court in Texas, effectively revoked the expansion permit that was granted by the Texas Commission on Environmental Quality (TCEQ) in 2001 and required us to operate the landfill according to a prior permit granted in 1988. We have appealed this decision to the Texas State Court of Appeals. Operationally, if necessary, we will attempt to obtain bonding that will allow us to continue to operate the landfill as usual during the period of appeal, which may continue for two years or longer. If the appeal is not successful, the landfill may become impaired and we may incur costs to relocate waste to another landfill and this matter could result in a charge of up to $50 million to our consolidated statement of operations.

We have been notified that we are considered a potentially responsible party at a number of sites under CERCLA or other environmental laws. In all cases, such alleged responsibility is due to the actions of companies prior to the time we acquired them. We continually review our status with respect to each site, taking into account the alleged connection to the site and the extent of the contribution to the volume of waste at the site, the available evidence connecting the entity to that site and the number and financial soundness of other potentially responsible parties at the site. The ultimate amounts for environmental liabilities at sites where we may be a potentially responsible party cannot be determined and estimates of such liabilities made by us require assumptions about future events subject to a number of uncertainties, including the extent of the contamination, the appropriate remedy, the financial viability of other potentially responsible parties and the final apportionment of responsibility among the potentially responsible parties. Where we have concluded that our estimated share of potential liabilities is probable, a provision has been made in the consolidated financial statements. Since the ultimate outcome of these matters may differ from the estimates used in our assessments to date, the recorded liabilities are periodically evaluated, as additional information becomes available, to ascertain that the accrued liabilities are adequate. We have determined that the recorded liability for environmental matters as of December 31, 2004 of approximately $304.8 million represents the most probable outcome of these contingent matters. We do not expect that adjustments to estimates, which may be reasonably possible in the near term and that may result in changes to recorded amounts, will have a material effect on our consolidated liquidity, financial position or results of operations. For more information about our potential environmental liabilities see Note 7 to our consolidated financial statements.

We are currently under examination by various state and federal taxing authorities for certain tax years, including federal income tax audits for calendar years 1998 through 2003. A federal income tax audit for BFI's tax years ended September 30, 1996 through July 30, 1999 is complete with the exception of the matter discussed below.

Prior to our acquisition of BFI on July 30, 1999, BFI operating companies, as part of a risk management initiative to effectively manage and reduce costs associated with certain liabilities, contributed assets and existing environmental and self-insurance liabilities to six fully consolidated BFI risk management companies (RMCs) in exchange for stock representing a minority ownership interest in the RMCs. Subsequently, the BFI operating companies sold that stock in the RMCs to third parties at fair market value which resulted in a capital loss of approximately $900 million for tax purposes, calculated as the excess of the tax basis of the stock over the cash proceeds received.

On January 18, 2001, the Internal Revenue Service (IRS) designated this type of transaction and other similar transactions as a "potentially abusive tax shelter" under IRS regulations. During 2002, the IRS proposed the disallowance of all of this capital loss. The primary argument advanced by the IRS for disallowing the capital loss was that the tax basis of the stock of the RMCs received by the BFI operating companies was required to be reduced by the amount of liabilities assumed by the RMCs even though such liabilities were contingent and, therefore, not liabilities recognized for tax purposes. Under the IRS view, there was no capital loss on the sale of the stock since the tax basis of the stock should have approximately equaled the proceeds received. We protested the disallowance to the Appeals Office of the IRS in August 2002.

If the proposed disallowance is upheld, we estimate it could have a potential total cash impact of up to $310 million for federal and state taxes plus accrued interest through December 31, 2004 of approximately $81.6 million ($49.0 million net of tax benefit). We also received a notification from the IRS proposing a penalty of 40% of the additional income tax resulting from the disallowance. Because of several meritorious defenses, we believe the successful assertion of penalties is unlikely.

We expect that sometime in the first half of 2005, the Appeals Office of the IRS will uphold the disallowance of the capital loss deduction. If this occurs, we would most likely litigate the matter in a federal court and we would be required to pay a deficiency of approximately $50 million for BFI tax years prior to the acquisition. Thereafter, it would likely take a couple of years before the court reached a decision and it is likely that the losing party would appeal the decision to a court of appeals. A settlement, however, could occur at any time during the litigation process.

The remaining tax years affected by the capital loss issue are currently being audited by the IRS. A court decision on the litigation would resolve the issue in these years as well. If we were to win the case, the initial payment would be refunded to us, subject to an appeal. If we were to lose the case, the deficiency associated with the remaining tax years would be due.

We continue to believe our position is well supported. However, the potential tax and interest impact of a disallowance has been fully reserved on our consolidated balance sheet. Also, the $50 million payment noted above has been reclassed from long-term liabilities to current liabilities. Therefore, with regard to tax and accrued interest through December 31, 2004, a disallowance would have minimal impact on our consolidated results of operations. The periodic accrual of additional interest charged through the time at which this matter is resolved will continue to affect consolidated results of operations. In addition, the successful assertion by the IRS of penalties could have a material adverse impact on our consolidated liquidity, financial position and results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of our stockholders during the fourth quarter of fiscal 2004.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Price Range of Common Stock

Our common stock, $0.01 par value, is traded on the New York Stock Exchange under the symbol "AW". The high and low closing sales prices per share for the periods indicated were as follows:

	High	Low
Year Ended December 31, 2004:		
First Quarter	$14.36	$11.92
Second Quarter	13.82	11.94
Third Quarter	12.85	8.69
Fourth Quarter	9.34	8.00
Year Ended December 31, 2003:		
First Quarter	$11.10	$ 7.75
Second Quarter	11.16	7.85
Third Quarter	12.55	10.12
Fourth Quarter	13.99	10.32

On February 1, 2005, the closing sales price of our common stock was $8.48. The number of holders of record of our common stock at February 1, 2005, was approximately 565.

Dividend Policy

We have not paid dividends on our common stock and are currently prohibited by the terms of our loan agreements from paying any dividends except as required to the Series C Mandatory Convertible Preferred Stock holders. For a more detailed discussion on these loan agreements, see Note 4 to our consolidated financial statements.

Recent Sales of Unregistered Securities

Not applicable.

Item 6. *Selected Financial Data*

The selected financial data presented below are derived from our historical consolidated financial statements which have been audited by PricewaterhouseCoopers LLP, our Independent Registered Public Accounting Firm. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the related notes included elsewhere in this Form 10-K. (Amounts are in millions, except per share amounts and percentages.)

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Statement of Operations Data[1]:					
Revenues	$ 5,362.0	$ 5,247.7	$ 5,190.8	$ 5,231.4	$ 5,360.0
Cost of operations	3,374.8	3,190.1	3,039.1	2,964.2	3,132.2
Selling, general and administrative expenses	541.5	476.9	462.7	434.7	409.4
Depreciation and amortization	559.3	546.0	478.5	448.8	433.8
Goodwill amortization[2]	—	—	—	226.7	223.2
Non-cash (gain) loss on divestiture of assets[3]	—	—	(9.3)	107.0	26.5
Operating income	886.4	1,034.7	1,219.8	1,050.0	1,134.9
Equity in earnings of unconsolidated affiliates	—	—	—	(14.1)	(50.8)
Interest expense and other[4]	758.9	832.9	854.0	866.1	892.1
Income before income taxes	127.5	201.8	365.8	198.0	293.6
Income tax expense	72.2	88.7	165.6	162.4	202.9
Minority interest	(2.7)	1.9	1.9	3.7	6.0
Income from continuing operations	$ 58.0	$ 111.2	$ 198.3	$ 31.9	$ 84.7
Basic EPS:					
Continuing operations[5]	$ 0.12	$ (2.36)	$ 0.63	$ (0.21)	$ 0.09
Weighted average common shares	315.0	203.8	190.2	189.6	188.8
Diluted EPS:					
Continuing operations[5]	$ 0.11	$ (2.36)	$ 0.62	$ (0.21)	$ 0.08
Weighted average common and common equivalent shares	319.7	203.8	193.5	189.6	191.1
Pro forma amounts, assuming the change in accounting principle is applied retroactively[6]:					
Income from continuing operations			$ 186.3	$ 20.1	$ 74.1
Basic income (loss) per share			0.57	(0.28)	0.03
Diluted income (loss) per share			0.56	(0.28)	0.03

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Statement of Cash Flows Data[1]:					
Cash flows from operating activities	$ 650.0	$ 783.9	$ 976.6	$ 847.6	$ 692.2
Cash flows used for investing activities (including asset purchases and sales, and capital expenditures)	(537.9)	(248.4)	(519.5)	(432.3)	(196.4)
Cash flows used for financing activities (including debt repayments)	(489.2)	(285.7)	(487.5)	(434.4)	(592.7)
Cash provided by discontinued operations	0.4	15.5	52.2	57.5	96.7
Balance Sheet Data[1]:					
Cash and cash equivalents	$ 68.0	$ 444.7	$ 179.4	$ 157.6	$ 119.2
Working capital (deficit)	(834.1)	(282.2)	(377.7)	(245.4)	(344.7)
Property and equipment, net	4,129.9	4,018.9	4,005.7	3,927.5	3,781.8
Goodwill, net	8,202.0	8,313.0	8,530.4	8,556.9	8,717.4
Total assets	13,493.9	13,860.9	13,928.9	14,347.1	14,513.6
Total debt	7,757.0	8,234.1	8,882.2	9,259.6	9,649.1
Series A preferred stock[7]	—	—	1,246.9	1,169.0	1,096.0
Stockholders' equity[7]	2,604.9	2,517.7	689.1	585.8	671.6
Total debt to total capitalization (including preferred stock)	75%	77%	82%	84%	85%

(1) During 2004 and 2003, we sold or held for sale certain operations that met the criteria for reporting discontinued operations. The selected financial data for all prior periods have been reclassified to include these operations as discontinued operations.

(2) In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), amortization of goodwill ceased on January 1, 2002.

(3) The non-cash (gain) loss on divestiture of assets relates to divestitures of certain operations that were not operating in a manner consistent with our business model. These divestitures are not included in discontinued operations.

(4) Effective January 1, 2003, we adopted SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (SFAS 145). Previously, extraordinary losses as a result of the write-off of deferred debt issuance costs and other costs incurred in connection with the early extinguishments of debt were properly classified as extraordinary. As a result of the adoption of SFAS 145, these expenses are now classified in interest expense and other. The pre-tax amounts reclassified were $16.8 million, $28.1 million and $21.9 million for the years ended December 31, 2002, 2001 and 2000, respectively. Costs incurred to early extinguish debt for the years ended December 31, 2004 and 2003 were $156.2 million and $108.1 million, respectively.

(5) During December 2003, the Series A Preferred Stock was exchanged for common stock. In connection with the exchange, we recorded a reduction to net income available to common shareholders of $496.6 million for the fair value of the incremental shares of common stock issued to the holders of the preferred stock over the amount the holders would have received under the original conversion provisions.

(6) Pro forma amounts give effect to the change in our method of accounting for landfill retirement obligations upon adoption of SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143) on January 1, 2003, as if the provisions of SFAS 143 had been applied retroactively.

(7) In December 2003, all of the Series A Preferred Stock was exchanged for 110.5 million shares of common stock.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with our Consolidated Financial Statements and the notes thereto, included elsewhere herein. Please note that unless otherwise specifically indicated, discussion of our results relate to our continuing operations.

Executive Summary

Our business is characterized by a stable customer base resulting in strong cash flow from operations. We provide the basic service of collection and disposal of non-hazardous solid waste that is essential to our customers' needs. Competition is driven by local economic and demographic factors as well as fluctuations in capacity utilization, in both the collection and landfill business. However, the order of magnitude for year over year price and volume changes over the past three years has been less than three percent, positive or negative. Customer service satisfaction levels industry-wide are very high since the collection customer has a very low tolerance for poor service.

The stability of our customer base generally drives our operating costs. Labor costs are the most significant of our total operating costs, consistent with our extensive workforce. The direct cost of disposing of waste at third-party sites is the next most significant of our total operating costs. The cost of disposal of waste at our own landfills is included in individual landfill related operating cost line items. Repair and maintenance costs are also significant and directly relate to the 13,500 collection and landfill vehicles and equipment that we operate to service our customer base. Our selling, general and administrative costs are largely predictable since salaries and management incentive compensation represent the most significant part of our selling, general and administrative costs. Depreciation and amortization is split almost evenly between depreciation of the vehicles and equipment used in our operations and the amortization of our landfill assets. In recent years, our operating costs have grown more quickly than our revenues, resulting in declining operating margins.

We invest a significant amount of capital to support the ongoing operations of our landfill and collection business. Landfills are highly engineered, sophisticated facilities similar to civil works. Each year we invest capital in our active landfills to ensure sufficient capacity to receive the waste volume we handle. In addition, we have approximately 13,500 collection vehicles and over 100,000 containers to serve our collection customers. They endure rough conditions each day and must be routinely maintained and replaced.

Cash flows in our business are for the most part fairly predictable as a result of the nature of our customer base. This predictability helps us to determine our ability to service debt. Knowing this, we have incurred debt to acquire the assets we own and we have paid cash to acquire existing cash flow streams. This financial model should allow us over time to transfer the enterprise value of the company from debt holders to shareholders as we use our cash flow to repay debt. We, of course, need to prudently manage our debt to ensure a capital structure that is supportive of our operating plan and to avoid unnecessary risk depending on the varying economic and capital market conditions. We intend to continue to use cash flow from operations after capital expenditures to reduce our debt balance until we reach credit ratios, that we believe will allow us to benefit from an investment grade-like cost of capital. As this occurs, we believe the relative cost of debt and interest expense should decline. Upon achieving optimal credit ratios we should have the opportunity to choose the best use of any excess cash flow: further repay debt, pay a dividend to the extent permitted, repurchase stock or reinvest in growing the size of our company. We may take advantage of opportunities that arise to accelerate the de-leveraging process as long as the opportunities meet our need to maintain our competitive strength.

Effective October 4, 2004, Charles H. Cotros was appointed Chairman of the Board of Directors and Chief Executive Officer of the company, succeeding Thomas H. Van Weelden, who resigned as Chairman and Chief Executive Officer of the Company on October 4, 2004 and as President of the

Company on October 25, 2004. Mr. Cotros' employment agreement currently anticipates he will remain in this position until we complete our search for a permanent Chairman and Chief Executive Officer, which we hope to accomplish in 2005. Effective December 30, 2004, our Executive Vice President and Vice Chairman retired.

Results of operations. Net income from continuing operations for the year ended December 31, 2004 decreased to $58.0 million from $111.2 million for the year ended December 31, 2003. This decrease was primarily due to increases in costs of operations and selling, general and administrative expenses, partially offset by increases in revenue and decreases in interest expense.

During 2004, internal revenue growth increased 2.1% and was driven by increases in both average price per unit and volume. However, increased costs for vehicle maintenance and costs directly associated with the implementation of standards and best practices across the company were the primary drivers of the decline in operating income.

Based on past business cycles, we believe that a stronger economic environment would drive greater volume growth, increase capacity utilization and therefore have a positive impact on average per unit pricing. We anticipate that most operating costs will continue to increase from normal inflation. However, we currently expect our employee benefits, fuel and maintenance costs will continue to increase at a rate in excess of inflation.

At the beginning of 2004, we began efforts to design and implement best practice programs throughout our organization. We believe the investment we are making in implementing best practice programs in the areas of revenue enhancement and operating cost reductions will provide benefits to operating margins and improve the overall business over the long term. The programs are focused on improving sales productivity and pricing effectiveness, driver productivity through improved routing, maintenance efficiency through standardized operating practices, and reducing our procurement costs through more effective purchasing. In addition, we are focusing on controlling cost increases associated with safety and our health and welfare programs. We incurred approximately $25 million of costs associated with the implementation of these programs in 2004. The majority of these costs were for third-party consultants and internal staffing. In 2005, we expect these costs to decrease to approximately $10-$15 million for ongoing program support costs. We expect to be able to produce approximately $55 million of net benefits in 2005, with net annual benefits potentially increasing to approximately $150 million over the long-term. In addition, we plan to increase capital expenditures over the next several years to reduce the average age of our truck fleet which should improve maintenance costs. In 2005, total capital expenditures are expected to be approximately $700 million.

Financing activities. We continue to focus on maximizing cash flow to repay debt and to seek opportunities to create additional cash flow through reductions in interest cost. During 2004, we reduced our debt balance by $477 million to $7.75 billion through the application of cash on our balance sheet at December 31, 2003 and operating cash flow, net of financing costs. We continue to reduce debt and improve our ratio of debt to total capitalization, which decreased to 74.9% at the end of 2004 from 76.6% at the end of 2003.

During 2004, we refinanced $2.0 billion of debt in the first half of the year, which enabled us to reduce the weighted average interest rate on those borrowings from 9% to approximately 6% and extend maturities from 2009 to 2011, 2014 and 2034. This contributed to the overall reduction of our effective interest rate from 8.96% at December 31, 2003 to 7.18% as of December 31, 2004. In connection with these refinancing activities, we paid approximately $158 million in premiums and new debt issuance costs and charged approximately $147 million to interest expense and other for the premiums and the non-cash write-off of previously deferred financing costs. In addition, during the last six months of 2004, we redeemed an additional $150 million of our 10% senior subordinated notes due in 2009 for $157.5 million. In connection with this redemption, we paid premiums of approximately $7.8 million and wrote-off deferred financing costs of $1.6 million, both of which were recorded as a charge to interest expense and other.

General

Revenues. We generate revenues primarily from fees charged to customers for waste collection, transfer, recycling and disposal services. We consider our core business to be our collection, transfer and landfill operations. We also generate revenue from the sale of recycled commodities. We record revenue as the services are provided, with revenue deferred in instances where services are billed in advance of the service being provided. The following table shows our total reported revenues by service line. Intercompany revenues have been eliminated.

Revenues by Service Line (in millions):

	Year Ended December 31, 2004	2003	2002
Collection			
Residential	$1,162.0	$1,132.8	$1,112.9
Commercial	1,350.4	1,373.8	1,397.6
Roll-off[1]	1,198.6	1,185.6	1,203.4
Recycling	208.6	202.2	204.0
Total Collection	3,919.6	3,894.4	3,917.9
Disposal			
Landfill[2]	642.6	633.4	586.3
Transfer	436.0	400.6	384.7
Total Disposal	1,078.6	1,034.0	971.0
Recycling — Commodity	235.4	194.8	165.8
Other	128.4	124.5	136.1
Total Revenues	$5,362.0	$5,247.7	$5,190.8

(1) Consists of revenue generated from commercial, industrial and residential customers from waste collected in roll-off containers that are loaded onto collection vehicles. Roll-off containers are generally uncovered containers that range in size from 20 to 40 cubic yards.

(2) Landfill revenues are presented net of landfill taxes.

We have organized our operations into nine geographic regions. Our operations are not concentrated in any one geographic region. Our regional teams focus on developing local markets in which we can achieve the greatest level of internalization and operating efficiency. As a result, we may choose to not operate in a market where our business objectives cannot be met. At December 31, 2004, we had operations in 122 major markets in 37 states. We operate only in the United States and Puerto Rico. The following table shows our revenues by geographic region in total and as a percentage of total revenues.

Revenues by Region[1] *(in millions, except percentages):*

	Year Ended December 31,					
	2004		2003		2002	
Atlantic	$ 536.1	10.0%	$ 523.4	10.0%	$ 520.2	10.0%
Great Lakes	526.7	9.8	517.1	9.9	523.1	10.1
Midstates	478.1	8.9	480.9	9.2	499.0	9.6
Mountain	546.5	10.2	551.5	10.5	522.4	10.1
North Central	644.9	12.0	629.0	12.0	594.8	11.5
Northeast	703.9	13.1	687.5	13.1	702.1	13.5
Pacific	744.6	13.9	680.0	13.0	658.4	12.7
Southeast	530.7	9.9	543.9	10.3	543.4	10.4
Southwest	611.3	11.4	595.9	11.3	598.1	11.5
Other[2]	39.2	0.8	38.5	0.7	29.3	0.6
Total revenues	$5,362.0	100.0%	$5,247.7	100.0%	$5,190.8	100.0%

(1) See discussion in Note 16 to our consolidated financial statements.

(2) Amounts relate primarily to our subsidiaries which provide services throughout the organization.

Operating Expenses. Cost of operations includes labor expenses, waste disposal at third-party disposal facilities, repairs and maintenance, transportation of waste to the disposal site, vehicle operating costs including fuel, landfill operating costs, safety and insurance, and other operating costs such as equipment and facility rent, utilities, environmental compliance and remediation. Approximately 70% of our fuel consumption in 2004 was under fixed price purchase contracts. Comparing the market price of fuel to the contracted price of fuel consumed in 2004, the fuel contracts provided benefits for the year of approximately $33 million. A significant portion of these contracts expire in early 2005. Landfill operating costs consist of landfill taxes, host community fees, landfill royalty payments, landfill site maintenance and other equipment operating expenses and accretion expense for capping, closure and post-closure monitoring liabilities. Reimbursement from third parties, primarily insurance carriers relating to environmental and remedial costs, are included in cost of operations as an offset to environmental expenses. In addition, gains or losses on sale of assets used in our operations are included in cost of operations. The following table provides the components of our operating costs as a percentage of our total operating costs:

	Year Ended December 31,		
	2004	2003	2002
Labor(1)	31.6%	32.7%	33.4%
Disposal	14.8	16.2	17.0
Repairs and maintenance(2)	13.5	12.8	13.0
Transportation	9.1	8.6	8.4
Vehicle operating	6.8	6.5	6.6
Landfill operating costs	8.2	7.8	7.5
Safety and insurance	5.1	5.2	4.9
Other(3)	10.9	10.2	9.2
	100.0%	100.0%	100.0%

(1) Includes health and welfare benefits and incentive compensation.

(2) Includes related labor and benefits.

(3) Primarily includes subcontractor costs, (gain) loss on sale of assets, environmental expense and related recoveries, and equipment and facility rent.

Selling, general and administrative expenses include compensation and overhead for corporate and field general management, field support functions, sales force, accounting and finance, legal, management information systems and clerical and administrative departments. In addition, fees for professional services provided by third parties, such as accountants, lawyers and consultants, marketing, investor and community relations and provisions for estimated uncollectible accounts receivable are included in selling, general and administrative expenses. The following table provides the components of our selling, general and administrative costs as a percentage of our total selling, general and administrative costs:

	Year Ended December 31,		
	2004	2003	2002
Salaries(1)	58.8%	59.2%	57.4%
Rent and office costs	7.9	8.8	9.6
Professional fees(2)	13.0	8.1	8.7
Provision for doubtful accounts	3.4	4.9	3.7
Other(3)	16.9	19.0	20.6
	100.0%	100.0%	100.0%

(1) Includes health and welfare benefits and incentive compensation.

(2) Includes professional fees from our best practices program.

(3) Primarily includes marketing, director and officer insurance, employee relocation and bank charges.

Depreciation and amortization includes depreciation of fixed assets and amortization costs associated with the acquisition, development and retirement of landfill airspace and intangible assets. Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (30-40 years), vehicles and equipment (3-15 years), containers and compactors (5-10 years) and furniture and office equipment (4-8 years). Landfill airspace is amortized at a rate per ton of waste disposed. See Critical Accounting Judgements and Estimates and Note 7 in the Notes to Consolidated Financial Statements for a discussion of landfill accounting.

Landfill Disposal Capacity and Operating Lives. We had available disposal capacity of approximately 2.5 billion tons as of December 31, 2004. We classify this total disposal capacity as either permitted (having received the final permit from the governing authorities) or probable expansion. Probable expansion disposal capacity has not yet received final approval from the regulatory agencies, but we have determined that certain critical criteria have been met and the successful completion of the expansion is highly probable. Our requirements to classify disposal capacity as probable expansion are as follows:

1. We have control of and access to the land where the expansion permit is being sought.
2. All geologic and other technical siting criteria for a landfill have been met, or a variance from such requirements has been received (or can reasonably be expected to be achieved).
3. The political process has been assessed and there are no identified impediments that cannot be resolved.
4. We are actively pursuing the expansion permit and have an expectation that the final local, state and federal permits will be received within the next five years.
5. Senior operations management approval has been obtained.

The following table reflects disposal capacity activity for active landfills we owned or operated for the twelve months ended December 31, 2004 (disposal capacity in millions of tons):

	Permitted Disposal Capacity	Number of Landfills	Probable Expansion Disposal Capacity	Number of Landfills	Total Disposal Capacity	Total Number of Landfills
Balance as of December 31, 2003	1,937.4	166	615.5	34	2,552.9	166
Acquisitions, divestitures and closures	2.8	—	—	—	2.8	—
Additions to probable expansion disposal capacity	—	—	24.5	2	24.5	—
Net change to permitted disposal capacity	138.7	—	(162.6)	(12)	(23.9)	—
Disposal capacity consumed	(78.1)	—	—	—	(78.1)	—
Changes in engineering estimates	(4.9)	—	(1.9)	—	(6.8)	—
Balance as of December 31, 2004	1,995.9	166	475.5	24	2,471.4	166

The following table reflects the estimated operating lives of our landfill assets based on available disposal capacity using current annual volumes:

	At December 31, 2004		At December 31, 2003	
	Number of Sites	Percent of Total	Number of Sites	Percent of Total
0 to 5 years	30	18%	27	16%
5 to 10 years	15	9	12	7
10 to 20 years	41	25	37	22
20 to 40 years	38	23	44	27
40+ years	42	25	46	28
Total	166	100%	166	100%

Results of Operations

The following table sets forth our results of operations and percentage relationship that the various items bear to revenues for the periods indicated (in millions, except percentages).

Statement of Operations Data:

	Year Ended December 31,					
	2004		2003		2002	
Revenues	$5,362.0	100.0%	$5,247.7	100.0%	$5,190.8	100.0%
Cost of operations	3,374.8	63.0	3,190.1	60.8	3,039.1	58.6
Selling, general and administrative expenses	541.5	10.1	476.9	9.1	462.7	8.9
Depreciation and amortization	559.3	10.4	546.0	10.4	478.5	9.2
Non-cash gain on divestiture of assets	—	—	—	—	(9.3)	(0.2)
Operating income	886.4	16.5	1,034.7	19.7	1,219.8	23.5
Interest expense and other	758.9	14.1	832.9	15.9	854.0	16.5
Income before income taxes	127.5	2.4	201.8	3.8	365.8	7.0
Income tax expense	72.2	1.3	88.7	1.7	165.6	3.2
Minority interest	(2.7)	0.0	1.9	0.0	1.9	0.0
Income from continuing operations	58.0	1.1	111.2	2.1	198.3	3.8
Discontinued operations, net	(8.7)	(0.2)	(11.5)	(0.2)	16.8	0.3
Cumulative effect of change in accounting principle, net of tax	—	—	29.0	0.6	—	—
Net income	49.3	0.9	128.7	2.5	215.1	4.1
Dividends on preferred stock	(21.6)	(0.4)	(95.6)	(1.8)	(77.9)	(1.5)
Non-cash conversion of preferred stock	—	—	(496.6)	(9.5)	—	—
Net income (loss) available to common shareholders	$ 27.7	0.5%	$ (463.5)	(8.8)%	$ 137.2	2.6%

Years Ended December 31, 2004 and 2003

Revenues. Revenues increased 2.2% in 2004. Following is a summary of the change in revenues (in millions):

Reported revenues in 2003	$5,247.7
Core business[1]	
Increase from average per unit price change	46.3
Increase from volume change	56.3
Net divested revenues[2]	(29.5)
Increase in commodity and other revenues	41.2
Reported revenues in 2004	$5,362.0

[1] Core business represents revenues from collection, transfer and landfill services on a same store basis.

[2] Excludes amounts reclassified to discontinued operations.

For the year ended December 31, 2004, revenues increased over the prior year in all major lines of business: collection, transfer and disposal. Additionally within the collection business, the residential and roll off revenues increased, while the commercial business showed a slight decrease. Increases in overall revenues were driven by price and volume growth of about 1% each. The growth in our average per unit price is a result of our continued focus on effective price increases, effectively managing the pricing of our new work and allowing under-priced work to be replaced with more profitable work. Volume growth continues to be driven by an overall improvement in the economy, as well as more effective sales practices in the landfill, transfer and collection business. Commodity and other revenue increased primarily due to an increase in the average per unit price for our main recyclable commodities, old corrugated cardboard and paper, as well as a slight increase in recycled volumes.

Cost of Operations. Cost of operations increased 5.8% in 2004. The increase for the year is primarily attributable to (i) inflationary increases in all costs, (ii) incremental increases in costs associated with increased volume (such as transportation, host fees and landfill operating costs) and (iii) increases in maintenance, landfill operating costs, fuel and transportation costs in excess of inflation. Labor, which represents over 30% of the cost of operations, increased approximately 2% in 2004.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 13.6% in the year ended December 31, 2004 as compared to 2003. The increase is primarily attributable to salaries and professional fees. Included in salaries were $18 million of costs associated with an executive departure and our field organization realignment in the fourth quarter of 2004. This amount includes approximately $15 million related to the resignation of the Chairman and Chief Executive Officer in the fourth quarter of 2004.

Costs associated with professional fees included approximately $18 million on efforts to implement standards and best practices across the company and an increase in professional fees for incremental costs associated with increased corporate governance regulations (including Sarbanes-Oxley 404 implementation) and labor relations.

Depreciation and Amortization. Depreciation and amortization expense increased 2.4% in the year ended December 31, 2004 as compared to 2003. The increase was primarily attributable to an increase in landfill volume and landfill amortization rates.

Interest Expense and Other. Interest expense and other decreased by 8.9% in 2004. Following are the components of interest expense and other (in millions):

	For the Year Ended December 31,	
	2004	2003
Interest Expense and Other —		
Interest expense, gross	$592.7	$691.2
Cash settlement on non-hedge accounting interest rate swap contracts	8.5	50.8
Interest income	(2.5)	(3.4)
Interest capitalized for development projects	(13.0)	(15.7)
Accretion of debt and amortization of debt issuance costs	27.0	31.8
Non-cash gain on non-hedge accounting interest rate swap contracts	(16.3)	(48.1)
Amortization of accumulated other comprehensive loss for de-designated interest rate swap contracts	6.7	23.1
Costs incurred to early extinguish debt	156.2	108.1
Interest expense allocated to discontinued operations	(0.4)	(4.9)
Interest expense and other	$758.9	$832.9

The decrease in gross interest expense and cash settlement on non-hedge accounting interest rate swap contracts is attributable primarily to the repayment of debt from our continued de-leveraging strategy, the refinancing of debt at lower interest rates and the maturing of higher rate interest rate swap contracts. During 2004 and 2003, we decreased our debt balance by $477 million and $648 million, respectively, and in 2004, we refinanced approximately $2.0 billion of debt with lower interest rates. At December 31, 2004, approximately 79% of our debt had fixed rates.

Costs incurred to retire debt prior to maturity in 2004 include $129.8 million of premiums and fees paid and $26.4 million of write-offs of financing costs. These costs were associated with the repurchase of $1.3 billion of our 10% senior subordinated notes and the redemption of $875 million of 7.875% senior notes, both of which were due in 2009. Costs incurred to retire debt prior to maturity in 2003 include (i) $53.8 million for the write-off of deferred financing costs and other costs for the refinancing of our credit facility and (ii) $53.4 million in premiums paid and other costs for the open market repurchase of $506.1 million of 10% senior subordinated notes during 2003.

The change in non-cash gain on non-hedge accounting interest rate swap contracts is due to changes in the market value of the underlying interest rate swap contract driven by both changes in prevailing interest rates and the remaining term of the interest rate swap contract. The decrease in amortization of accumulated other comprehensive loss for de-designated interest rate swap contracts is attributable to de-designated interest rate swap contracts that matured during 2004.

Income Tax Expense. The effective tax rate for the year ended December 31, 2004 was 55.5% compared to 44.4% for the same period in 2003. The increase is due in part to a decrease in annual earnings before taxes in 2004 compared with 2003 and an increase in interest provided on the tax contingency described in Note 13 to our Consolidated Financial Statements.

Minority Interest. We recognized a non-recurring minority interest benefit from revised estimates used in the stipulated calculation of certain minority shareholders' equity at certain consolidated subsidiaries.

Discontinued Operations. Certain operations that were divested during 2004 and 2003, are reflected as discontinued operations in the accompanying financial statements. During 2004, we sold operations in Florida and included a net after tax loss of approximately $8.5 million in discontinued operations. Also included in the results for discontinued operations for the year ended December 31, 2004 is a net after tax gain of $1.7 million as a result of purchase price adjustments for operations sold in 2003. During 2003, we sold discontinued operations in South Carolina, Georgia, Colorado, New Jersey, Virginia and Florida and included a net after tax loss of approximately $29.0 million in discontinued operations.

Dividends on Preferred Stock. Dividends on preferred stock were $21.6 million and $95.6 million for years 2004 and 2003, respectively. Dividends on preferred stock decreased by 77.5% in 2004. Dividends in 2004 include 6.25% dividends payable in cash relating to Series C Mandatory Convertible Preferred Stock (Series C Preferred Stock) issued in April 2003. Dividends in 2003 included dividends related to the Series C Preferred Stock and a non-cash 6.5% dividend on the liquidation preference of our Series A Senior Convertible Preferred Stock. The Series A Senior Convertible Preferred Stock was converted to common stock in December 2003.

Non-cash Conversion of Preferred Stock. In December 2003, the Series A Senior Convertible Preferred Stock was exchanged for common stock. In connection with the exchange, we recorded a reduction to net income available to common shareholders of $496.6 million for the fair value (using a common stock price on the date of conversion of $13.50) of the 36.8 million incremental shares of common stock issued to the holders of the preferred stock over the amount the holders would have received under the original conversion provisions.

Years Ended December 31, 2003 and 2002

Revenues. Revenues increased 1.1% in 2003. Following is a summary of the change in revenues (in millions):

Reported revenues in 2002	$5,190.8
Core business[1]	
Decrease from average per unit price change	(8.5)
Increase from volume change	83.1
Net divested revenues[2]	(34.8)
Increase in commodity and other revenues	17.1
Reported revenues in 2003	$5,247.7

[1] Core business represents revenues from collection, transfer and landfill services on a same store basis.

[2] Excludes amounts reclassified to discontinued operations.

Overall, during 2003, we continued to experience pricing pressures as a result of general economic conditions. Landfill revenues increased as a result of a 6% increase in landfill volumes and a slight increase in per unit pricing for 2003 when compared to 2002. Revenue from the collection businesses remained fairly consistent from 2002 to 2003 with volumes and per unit pricing remaining flat. Commodity revenues increased by $34 million in 2003 compared to 2002 primarily due to an increase in the average per unit price received for old corrugated cardboard and various grades of paper, our primary commodities, and an increase in processing fees associated with a recycling contract, offset by a decline in commodity volume primarily due to the sale or closure of processing facilities. Additionally, we experienced a decrease in other revenues of $17 million due to an increase in landfill taxes and a decrease in other non-core revenues.

Cost of Operations. Cost of operations increased by 5.0% in 2003. The increase is primarily attributable to (i) inflationary increases in all costs, (ii) incremental increases in costs associated with increased volumes (such as transportation, host fees and landfill operating costs) and (iii) increases in insurance and financial assurance costs in excess of inflation rates. These cost increases were partially offset by a reduction of $26 million in capping, closure and post-closure provision as a result of a change in accounting upon our adoption of SFAS 143 and a reduction in other operating expenses from the change in reversals of acquisition related accruals of $4 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 3.1% in 2003. The increase is primarily due to normal inflationary increases in costs (primarily labor related), an increase in pension expense in excess of inflationary increases and an increase in bad debt expense. The increase in pension expense is primarily attributable to the overall decline in the market value of our pension assets in 2002 and 2001 and the decrease in the expected long-term rate of return from 2002 to 2003. These cost increases were partially offset by a reduction in other expense from the reversal of acquisition related accruals of $4.2 million that we determined were no longer necessary.

Depreciation and Amortization. Depreciation and amortization expense increased by 14.1% in 2003. The increase is primarily attributable to an increase in landfill amortization. The adoption of SFAS 143 changed our accounting for landfills and resulted in an increase in landfill assets to be amortized and increased landfill volumes, both of which caused the increase in landfill amortization.

Interest Expense and Other. Interest expense and other decreased by 2.5% in 2003. Following are the components of interest expense and other (in millions):

	For the Year Ended December 31,	
	2003	2002
Interest Expense and Other —		
Interest expense, gross	$691.2	$735.0
Cash settlement on non-hedge accounting interest rate swap contracts	50.8	59.6
Interest income	(3.4)	(4.8)
Interest capitalized for development projects	(15.7)	(20.6)
Accretion of debt and amortization of debt issuance costs	31.8	43.2
Non-cash gain on non-hedge accounting interest rate swap contracts	(48.1)	(2.4)
Amortization of accumulated other comprehensive loss for de-designated interest rate swap contracts	23.1	35.4
Costs incurred to early extinguish debt	108.1	16.8
Interest expense allocated to discontinued operations	(4.9)	(8.2)
Interest expense and other	$832.9	$854.0

The decrease in gross interest expense is attributable primarily to the repayment of debt from our continued de-leveraging strategy. During 2003, we decreased our debt balance by $648.1 million, causing a decrease in overall interest costs. At December 31, 2003, approximately 96% of our debt was fixed, 76% directly through a fixed coupon and 20% through interest rate swap contracts. The decrease in cash settlements on non-hedge accounting interest rate swap contracts is the result of interest swap contracts maturing.

The change in non-cash gain on non-hedge accounting interest rate swap contracts is due to changes in the market value of the underlying interest rate swap contract driven by both changes in prevailing interest rates and the remaining term of the interest rate swap contract. The decrease in amortization of accumulated other comprehensive loss for de-designated interest rate swap contracts is attributable to de-designated interest rate swap contracts that matured during 2003.

Costs incurred to retire debt prior to maturity in 2003 include (i) $53.8 million for the write-off of deferred financing costs and other costs for the refinancing of our credit facility and (ii) $53.4 million in premiums paid and other costs for the open market repurchase of $506.1 million of 10% senior subordinated notes during 2003.

Discontinued Operations. During 2003, we determined that some of the operations we have divested or are planning to divest of as part of our divestiture plan announced earlier in 2003 were discontinued operations. The operations discontinued during 2003 include operations in:

- South Carolina, Georgia and Colorado sold at the end of second quarter,
- New Jersey sold in the third quarter,
- South Florida sold at the beginning of fourth quarter,
- North and Central Florida sold at the end of fourth quarter or held for sale at December 31, 2003, and
- North Virginia sold at the end of fourth quarter.

Discontinued operations in 2003 included a net after tax loss of approximately $29.0 million for the write-down of assets to fair value at the time the assets were determined to be held for sale, net of gains recorded for assets sold for which proceeds exceeded book value.

Cumulative Effect of Change in Accounting Principle. We adopted SFAS 143, *Accounting for Asset Retirement Obligations,* effective January 1, 2003. We recorded a cumulative effect of change in accounting principle of $29.0 million, net of income tax expense of $19.4 million.

Dividends on Preferred Stock. Dividends on preferred stock increased by 22.8% in 2003. Dividends increased because in April 2003 we issued Series C Mandatory Convertible Preferred Stock with 6.25% dividends payable in cash. Dividends for both 2003 and 2002 reflect a 6.5% dividend on the liquidation preference of our Series A Senior Convertible Preferred Stock. During 2003 and 2002, in lieu of paying cash dividends on the Series A Senior Convertible Preferred Stock, the liquidation preference of the preferred stock increased by the amount of accrued but unpaid dividends. In December 2003, we exchanged the Series A Preferred Stock to common stock, which included the cumulative dividends that had been accrued.

Non-cash Conversion of Preferred Stock. During December 2003, the Series A Senior Convertible Preferred Stock was exchanged for common stock. In connection with the exchange, we recorded a reduction to net income available to common shareholders of $496.6 million for the fair value (using a common stock price on the date of conversion of $13.50) of the 36.8 million incremental shares of common stock issued to the holders of the preferred stock over the amount the holders would have received under the original conversion provisions.

Liquidity and Capital Resources

During 2004, we generated operating cash flows of $650.0 million, of which we reinvested $582.9 million of capital into the business. We reduced our debt balance by $477 million to $7.8 billion. During 2004, we completed various refinancing transactions and debt repayments, reducing the weighted average interest rate on approximately $2.0 billion of borrowings from 9% to 6%.

We generally meet operational liquidity needs with operating cash flow. Our other liquidity needs are primarily for capital expenditures for vehicles, containers and landfill development, debt service costs, scheduled debt maturities and capping, closure, post-closure and environmental expenditures.

When we cannot meet our liquidity needs with operating cash flow, we meet those needs with borrowings under our revolving credit facility. We have a $1.5 billion commitment until 2008 under our revolving credit facility, which we believe is adequate to meet our liquidity needs based on current conditions. At December 31, 2004, we had no loans outstanding and $716.7 million in letters of credit outstanding on the revolving credit facility, leaving $783.3 million of availability. Additionally, we have letter of credit capacity of $198 million until 2008 under our institutional letter of credit facility to meet letter of credit requirements, in addition to our revolving credit facility, all of which was used at December 31, 2004.

We continuously seek opportunities to increase our cash flow through improvements in operations and reducing our interest cost. Historically we have used bank financings and capital markets transactions to meet our refinancing and liquidity requirements. Under our Credit Facility, we are required to meet certain financial covenants. Our objective is to maintain sufficient surplus between the required covenant ratios and the actual ratios calculated according to the Credit Agreement. We monitor the surplus carefully and will take action if the surplus becomes too tight. We have not historically experienced difficulty in obtaining financing or refinancing existing debt. We expect to continue to seek such opportunities in the future to the extent such opportunities are available to us. (See also *Debt Covenants* in Contractual Obligations and Commitments).

Our cash flows from operating, investing and financing activities for the last three years were as follows (in millions):

	Years Ended December 31, 2004	2003	2002
Operating Activities:			
Net income	$ 49.3	$ 128.7	$ 215.1
Discontinued operations, net of tax	8.7	11.5	(16.8)
Non-cash gain on divestiture of assets	—	—	(9.3)
Non-cash expenses[1]	683.7	692.8	688.9
Gain on sale of fixed assets	(4.9)	—	(5.8)
Non-cash gain on non-hedge accounting interest rate swap contracts	(16.2)	(48.1)	(2.4)
Amortization of accumulated other comprehensive loss for de-designated interest rate swap contracts	6.7	23.1	35.4
Change in working capital	(34.9)	6.7	105.7
Capping, closure, post-closure and environmental expenditures, net of provision and accretion	(42.4)	(30.8)	(34.2)
Cash provided by operating activities from continuing operations	650.0	783.9	976.6
Investing Activities:			
Proceeds from divestitures less the cost of acquisitions, net of cash divested/acquired[2]	36.2	250.0	31.2
Proceeds from sale of fixed assets	11.0	17.5	28.6
Capital expenditures, excluding acquisitions	(582.9)	(491.8)	(536.3)
Capitalized interest	(13.0)	(15.7)	(20.6)
Change in deferred acquisition costs, notes receivable and other	10.8	(8.4)	(22.4)
Cash used for investing activities from continuing operations	(537.9)	(248.4)	(519.5)
Financing Activities:			
Net proceeds from sale of Series C Preferred Stock	—	333.1	—
Proceeds from long-term debt, net of issuance costs	3,082.6	3,037.1	1,044.3
Repayments of long-term debt	(3,609.1)	(3,754.6)	(1,447.5)
Payment of Series C Preferred Stock dividends	(21.6)	(10.2)	—
Change in disbursement account	53.8	10.5	(87.1)
Net proceeds from sale of common stock, exercise of stock options and other	5.1	98.4	2.8
Cash used for financing activities from continuing operations	(489.2)	(285.7)	(487.5)
Cash provided by discontinued operations	0.4	15.5	52.2
(Decrease)/Increase in cash and cash equivalents	$ (376.7)	$ 265.3	$ 21.8

(1) Consists principally of provisions for depreciation and amortization, receivable realization allowance, accretion of debt and amortization of debt issuance costs, write-off of deferred debt issuance costs, non-cash reduction in acquisition accruals, non-cash portion of realignment costs, deferred income taxes and cumulative effect of change in accounting principle, net of tax.

[2] During 2004, we acquired solid waste operations representing approximately $16.6 million ($16.6 million, net of intercompany eliminations) in annual revenues and sold operations representing approximately $62.2 million ($60.8 million, net of intercompany eliminations) in annual revenues. During 2003, we acquired solid waste operations representing approximately $42.1 million ($39.3 million, net of intercompany eliminations) in annual revenues and sold operations representing approximately $353.3 million ($338.6 million, net of intercompany eliminations) in annual revenues. During 2002, we acquired solid waste operations, representing approximately $28.3 million in annual revenues, and sold operations representing approximately $70.1 million ($69.3 million, net of intercompany eliminations) in annual revenues.

Cash provided by continuing operations decreased by 17.1% in 2004 when compared to the same period in 2003. The decrease in cash provided by continuing operations when comparing 2004 to 2003 is primarily due to the payment of $129.8 million of premiums and fees for refinancing transactions in 2004, a reduction in net income, and a decrease in working capital deficit of $34.9 million, compared to an increase of $6.7 in 2003, that was primarily attributable to the timing of payment of interest, taxes and other operating expenditures.

Following is a summary of the primary sources and uses of cash during the year 2004 and 2003 (in millions):

Sources of cash

	2004	2003
Cash from continuing operations	$ 650.0	$ 783.9
Decrease in cash balance	376.7	—
Net proceeds from issuance of common and preferred stock	5.1	427.5
Net proceeds from acquisitions and divestitures	36.2	250.0
Proceeds from the sale of fixed assets	11.0	17.5
Total	$1,079.0	$1,478.9

Uses of cash

	2004	2003
Capital expenditures	$ 582.9	$ 491.8
Debt repayments	526.5	648.1
Increase in cash balance	—	265.3
Payment of cash dividends	21.6	10.2
Other non-operating net cash outflows (inflows)	(52.0)	63.5
Total	$1,079.0	$1,478.9

Capital Expenditures. In addition to funding our operational working capital and debt reduction needs, we are committed to investing capital in our asset base. Our capital expenditures are primarily for the construction and build out of our landfills, for the vehicles and containers used by our collection operations and for heavy equipment used in both our collection and landfill operations. Beginning in 2005, we intend to increase the level of capital expenditures to approximately $700 million in order to reduce the average age of our truck fleet and lower repairs and maintenance expense. We expect to maintain this level of capital spending for the next few years. Following is a summary of capital expenditures for the years ended December 31, (in millions except for percentages):

	2004	2003	2002
Vehicles, containers and heavy equipment	$214.8	$231.2	$289.6
Landfill development	297.1	219.1	207.1
Other[1]	71.0	41.5	39.6
Total capital expenditures, excluding acquisitions	$582.9	$491.8	$536.3
Capital expenditures as a % of revenues	10.9%	9.4%	10.3%

[1] Includes land and improvements, land held for permitting as landfills, buildings and improvements, and furniture and office equipment.

Significant Financing Events in 2004

The following transactions were completed during 2004:

We repaid our $225 million 7.375% senior notes due 2004 on January 2, 2004 with our cash balance at December 31, 2003.

We issued $400 million of 5.75% senior notes due 2011 and $425 million of 6.125% senior notes due 2014. We used the proceeds from the sale of these notes to redeem $825 million of our 7.875% senior notes due 2009 at a redemption price of 103.938% in February 2004. In May 2004, we redeemed the remaining $50 million of the $875 million 7.875% senior notes due 2009 at a redemption price of 103.938%.

We repurchased $93.9 million of our 10% senior subordinated notes due 2009 using the remaining proceeds from the $350 million senior secured notes issued in November 2003 due 2010.

In April 2004, we funded a new $150 million Term Loan D due 2010 priced at LIBOR plus 250 basis points. We used the proceeds from the Term Loan D, along with the proceeds from issuance of the following notes, to repurchase $1.055 billion of our 10% senior subordinated notes due 2009 through the completion of a tender offer and open-market repurchases:

- $400 million of 7.375% senior unsecured notes due 2014,
- $275 million of 6.375% senior notes due 2011, and
- $230 million of 4.25% senior subordinated convertible debentures due 2034.

In connection with these 2004 financing transactions completed in the first half of 2004, which reduced the weighted average interest rate on approximately $2.0 billion of borrowings from 9% to 6%, we paid premiums and issuance costs of approximately $158 million ($55 million in the first quarter and $103 million in the second quarter) and recorded a charge to interest expense and other of approximately $147 million ($53 million in the first quarter and $94 million in the second quarter) for premiums paid and the non-cash write-off of deferred financing costs. The premiums and issuance costs were paid using our revolver borrowings.

In August 2004, we redeemed an additional $75 million of our 10% senior subordinated notes due 2009 for $78.8 million. In connection with this redemption, we paid premiums and fees of approximately $4.0 million and wrote-off $0.8 million of deferred financing costs, both of which were recorded as a charge to interest expense and other.

On October 1, 2004 we increased our receivables secured loan program from $175 million to $230 million. Also, as of October 1, 2004 we increased the amount we borrowed under the loan agreement secured by receivables by $75 million and extended the maturity from March 2005 to May 2005. The loan agreement has a 364 day liquidity facility with a three year purchase commitment, however, we intend to extend the liquidity facility annually. If we are unable to renew the loan agreement, we would refinance any amounts outstanding with our revolving credit facility which matures in 2008 or with other long-term borrowings. Although we intend to renew the loan agreement in May 2005 and do not expect to repay the amounts within the next twelve months, the loan is classified as a current liability because it has a contractual maturity of less than one year.

In November 2004, we redeemed another $75 million of our 10% senior subordinated notes due 2009 for $78.8 million with the borrowings under our receivables secured loan. In connection with this redemption, we paid premiums and fees of approximately $3.8 million and wrote-off $0.8 million of deferred financing costs, both of which were recorded as a charge to interest expense and other.

Exchange of Series A Senior Convertible Preferred Stock

On December 18, 2003, we completed the exchange of the Series A Preferred Stock outstanding for 110.5 million shares of our common stock. The Series A Preferred Stock had a stated value of $1.327 billion at December 18, 2003, the exchange date, which represented the original issuance amount plus cumulative accrued and unpaid dividends. No additional common shares were issued for the increase in liquidation preference from July 31, 2003, the date we reached agreement on the exchange transaction with the holders of the Series A Preferred Stock, through the exchange date. Upon completion of the exchange transaction, our outstanding shares on a fully diluted basis increased to approximately 350 million shares. As a result of the exchange, approximately $90 million in future annual dividend payments due to begin July 2004 have been eliminated.

Due to the change in the original conversion terms, we were required to quantify the accounting effect of the change in conversion terms and reduce net income available to common shareholders by the corresponding amount. Accordingly, we recorded a non-cash conversion charge of $496.6 million, which is reflected as a reduction to net income available to common shareholders, but has no effect on total stockholders' equity because an offsetting amount is recorded to additional paid-in capital. The non-cash conversion charge is calculated as the market value of the shares of our common stock issued in excess of the shares of common stock that the holders of the Series A Preferred Stock could have converted into under the original terms of the Series A Preferred Stock.

Financing Plan

We are a highly leveraged company with $7.8 billion of outstanding debt at December 31, 2004. The vast majority of our debt was incurred to acquire solid waste companies during the past 10 years. We incurred and assumed over $11 billion of debt to acquire Browning Ferris Industries, Inc. (BFI) in 1999. Since the acquisition of BFI, we have repaid debt with cash flow from operations, asset sales and the issuance of equity. We intend to continue to reduce our debt balance until we reach credit ratios that we believe will allow us to benefit from an investment grade-like cost of capital. We believe those benefits will be realized when the following ratios approach the indicated ranges:

- Debt to EBITDA between 3.5:1 and 3.0:1
- EBITDA to Interest between 3.0:1 and 3.5:1
- Debt to book value market capitalization between 60% and 65%

We are unable to predict or forecast which debt rating will be assigned by the rating agencies, or when new ratings will be assigned by them. We believe that as we move towards these ratios, when compared to today, we will have additional opportunities to reduce our cost of debt below our current level, provide opportunities to increase liquidity, and allow more flexibility in deciding the most appropriate use of our cash flow.

Until then, we will continue to manage operating cash flows and capital expenditures to facilitate repayment of our scheduled debt maturities and opportunistically reduce interest costs through refinancing transactions to the extent economically beneficial. Examples include the refinancing of

$1.8 billion of our 10% senior subordinated notes due 2009 and the other refinancing transactions in 2003 and 2004. We believe that we will continue to generate cash flow from operations after funding capital expenditures to be used to repay debt. In the future, we expect to continue to acquire operations that strengthen existing markets and increase vertical integration. In addition, we will continue to evaluate the performance of and opportunities to divest operations that do not maximize operating efficiencies or provide an adequate return on invested capital.

We may continue to seek opportunities to extend our maturities in the future with actions that are economically beneficial. We believe we have several alternatives available to us to extend maturities of our debt portfolio or retire debt. The potential alternatives include continued application of cash flow from operations, asset sales and capital markets transactions. Capital markets transactions could include issuance of debt with longer-term maturities, issuance of equity, or a combination of both. There is no assurance that in the future we will be able to (i) consummate transactions in the capital markets on commercially reasonable terms, or at all, (ii) sell assets or (iii) generate annual cash flows to repay debt.

We are currently reviewing opportunities in the credit and capital markets to refinance certain components of our capital structure, including certain loans under our credit facility and other fixed rate notes. Our objectives are to extend near-term maturities, increase financial capacity, reduce interest rates, and improve financial covenants. In addition, we are examining opportunities to retire certain high cost debt to improve cash flow and reduce financial leverage. Opportunities being reviewed include accessing both debt and equity markets. There are no assurances that a refinancing or any such transactions will be consummated.

We currently have effective shelf registration statements with the SEC that would allow us to issue various securities up to $2.0 billion as market conditions permit.

Contractual Obligations and Commitments

Following is a summary of our debt structure and the associated interest cost (in millions, except percentages):

	December 31, 2004			December 31, 2003		
Debt Instrument	Ending Debt Balance	Effective Interest Rate[1]	Annual Interest Expense	Ending Debt Balance	Effective Interest Rate[1]	Annual Interest Expense
Revolving credit facility[2]	$ —	5.56%	$ 14.8	$ —	5.41%	$ 14.0
Term loans	1,555.5	6.04	112.3	1,435.0	9.36	157.8
Senior secured notes	4,833.5	7.81	381.4	4,826.5	8.45	380.0
Senior unsecured notes	400.0	7.53	21.0	—	—	—
Senior subordinated convertible debentures	230.0	4.33	7.0	—	—	—
Senior subordinated notes	195.4	10.22	64.7	1,497.4	10.22	195.3
Receivables secured loan	209.9	3.32	3.7	146.3	1.68	2.4
Other	332.7	5.36	23.3	328.9	6.88	24.3
Total	$7,757.0	7.18	$628.2	$8,234.1	8.96	$773.8

(1) Includes the effect of interest rate swap contracts and amortization of debt issuance costs and premiums or discounts.

(2) Reflects weighted average interest rate.

The following table provides additional maturity detail of our long-term debt at December 31, 2004 (in millions):

Debt	2005	2006	2007	2008	2009	Thereafter	Total
Revolving Credit Facility[1]	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Term Loan B due 2010	15.0	15.0	15.0	15.0	15.0	1,087.9	1,162.9
Term Loan C due 2010	3.1	3.1	3.1	3.1	3.1	229.9	245.4
Term Loan D due 2010	1.9	1.9	1.9	1.9	1.9	137.7	147.2
Receivables secured loan[2]	209.9	—	—	—	—	—	209.9
7.875% BFI Senior notes	69.5	—	—	—	—	—	69.5
7.625% Senior notes	—	600.0	—	—	—	—	600.0
8.875% Senior notes	—	—	—	600.0	—	—	600.0
8.50% Senior notes	—	—	—	750.0	—	—	750.0
6.375% BFI Senior notes	—	—	—	161.2	—	—	161.2
10.00% Senior sub notes	—	—	—	—	195.0	—	195.0
6.50% Senior notes due 2010	—	—	—	—	—	350.0	350.0
5.75% Senior notes due 2011	—	—	—	—	—	400.0	400.0
6.375% Senior notes due 2011	—	—	—	—	—	275.0	275.0
9.25% Senior notes due 2012	—	—	—	—	—	375.0	375.0
7.875% Senior notes due 2013	—	—	—	—	—	450.0	450.0
7.375% Senior unsecured notes due 2014	—	—	—	—	—	400.0	400.0
6.125% Senior notes due 2014	—	—	—	—	—	425.0	425.0
9.25% BFI debentures due 2021	—	—	—	—	—	99.5	99.5
7.40% BFI debentures due 2035	—	—	—	—	—	360.0	360.0
4.25% Senior sub convertible debentures due 2034	—	—	—	—	—	230.0	230.0
Other debt	28.4	8.7	2.9	1.7	1.9	292.6	336.2
Total principal due	$327.8	$628.7	$22.9	$1,532.9	$216.9	$5,112.6	$7,841.8
Discount, net							(84.8)
Total debt balance							$7,757.0

[1] At December 31, 2004, under our 2003 Credit Facility, we had a revolver capacity commitment of $1.5 billion with no loans outstanding and $716.7 million of letters of credit outstanding, providing us remaining availability of $783.3 million. In addition, we had an institutional letter of credit facility of $198.0 million available under the 2003 Credit Facility, all of which was used for letters of credit outstanding.

[2] The receivables secured loan is a 364 day liquidity facility. On October 1, 2004, we increased our receivables secured loan by $75 million and extended the maturity from March 2005 to May 2005. At that time, we intend to renew the liquidity facility. If we are unable to renew the loan agreement, we would refinance any amounts outstanding with our revolving credit facility which matures in 2008 or with other long-term borrowings. Although we intend to renew the loan agreement in May 2005 and do not expect to repay the amounts within the next twelve months, the loan is classified as a current liability because it has a contractual maturity of less than one year.

The following table outlines what we regard as our material, fixed, non-cancelable contractual cash obligations, their payment dates and expirations. Amounts related to operating leases and purchase obligations are not recorded as a liability on our December 31, 2004 consolidated balance sheet and will be recorded as appropriate in future periods. This table excludes certain obligations that we have reflected on our consolidated balance sheet, such as pension obligations, for which we do not expect to have cash funding requirements and excludes amounts related to environmental liabilities and contingencies for which the timing of payments is not determinable.

	Payments Due by Year						
Contractual Obligations	2005	2006	2007	2008	2009	Thereafter	Total
				(In millions)			
Recorded obligations:							
Long-term debt[1]	$ 855.4	$ 1,102.3	$495.3	$1,935.4	$550.0	$ 6,852.2	$11,790.6
Capital lease obligations	2.9	1.9	1.7	1.7	1.7	12.6	22.5
Capping, closure and post-closure obligations	71.4	73.5	68.7	70.9	72.9	2,815.1	3,172.5
Other long-term liabilities[2]	—	70.6	44.6	34.3	31.6	105.2	286.3
Unrecorded obligations:							
Operating leases	32.4	30.0	24.7	20.2	17.6	49.8	174.7
Purchase obligations[3]							
Disposal related	98.9	79.4	75.8	72.7	65.2	633.1	1,025.1
Other	88.6	34.5	21.5	14.0	16.6	32.2	207.4
Total cash contractual obligations	$1,149.6	$ 1,392.2	$732.3	$2,149.2	$755.6	$10,500.2	$16,679.1

(1) Amount represents scheduled principal and interest due and excludes discounts and principal due on capital leases. Scheduled interest payment obligations are calculated using stated coupons for fixed debt and interest rates effective as of December 31, 2004 for variable rate debt.

(2) The current portion of other long-term obligations is not reflected here, as it is included in the other accrued liabilities balance.

(3) Purchase obligations consist primarily of (i) disposal related agreements which include fixed or minimum royalty and host agreements and take-or-pay and put-or-pay disposal agreements, and (ii) other obligations including a fuel contract agreement, committed capital expenditures, and consulting services arrangements.

Debt Covenants. Our 2003 Credit Facility and the indentures relating to our senior subordinated notes and our senior notes contain financial covenants and restrictions on our ability to complete acquisitions, pay dividends, incur indebtedness, make investments and take certain other corporate actions.

Under the 2003 Credit Facility, our primary financial covenants are:

Minimum Interest Coverage:

From the Quarter Ending	Through the Quarter Ending	EBITDA[(1)] / Interest
December 31, 2004	March 31, 2005	1.95x
June 30, 2005	September 30, 2005	2.00x
December 31, 2005	December 31, 2005	2.10x
March 31, 2006	June 30, 2006	2.15x
September 30, 2006	September 30, 2006	2.20x
December 31, 2006	December 31, 2006	2.30x
March 31, 2007	March 31, 2007	2.40x
June 30, 2007	June 30, 2007	2.45x
September 30, 2007	March 31, 2008	2.50x
June 30, 2008	June 30, 2008	2.60x
September 30, 2008	September 30, 2008	2.70x
December 31, 2008	Thereafter	2.75x

Maximum Leverage:

From the Quarter Ending	Through the Quarter Ending	Total Debt/ EBITDA[(1)]
March 31, 2003	June 30, 2005	5.75x
September 30, 2005	December 31, 2005	5.50x
March 31, 2006	June 30, 2006	5.25x
September 30, 2006	September 30, 2006	5.00x
December 31, 2006	December 31, 2006	4.75x
March 31, 2007	December 31, 2007	4.50x
March 31, 2008	June 30, 2008	4.25x
September 30, 2008	Thereafter	4.00x

At December 31, 2004, we were in compliance with these and all other financial covenants under our 2003 Credit Facility and our indentures. At December 31, 2004, Total Debt/EBITDA[(1)] ratio, as defined by the 2003 Credit Facility, was 5.37:1 and our EBITDA[(1)]/Interest ratio was 2.21:1. We are not subject to any minimum net worth covenants and we have no required minimum credit rating triggers.

[(1)] EBITDA used for covenants is calculated in accordance with the definition in our credit facility agreement. In this context, EBITDA is used solely to provide information on the extent to which we are in compliance with debt covenants.

Failure to comply with the financial covenants under our 2003 Credit Facility, as well as the occurrence of certain material adverse events, would constitute a default under the credit agreement and would allow the lenders under the 2003 Credit Facility to accelerate the maturity of all indebtedness under the credit agreement. In addition, maturity acceleration on the 2003 Credit Facility constitutes an event of default under our other debt instruments, including our senior notes and our senior subordinated notes and, therefore, these would also be subject to acceleration of maturity. If such acceleration of maturities of indebtedness were to occur, we would not have sufficient liquidity available to repay the indebtedness. We would likely have to seek an amendment under the 2003 Credit Facility for relief from the financial covenants or repay the debt with proceeds from the issuance of new debt or equity, and/or asset sales, if necessary. We may be unable to amend the 2003 Credit Facility or raise sufficient capital to repay such obligations in the event the maturities are accelerated.

Prepayments. Under our 2003 Credit Facility, we must repay a portion of our borrowings annually (prior to the stated maturity) if we generate cash flow in excess of specified levels. To make these payments, if required, we may have to use the 2003 Revolver to accommodate cash timing differences. Factors primarily causing excess cash flow, as defined, could include increases in operating cash flow, lower capital expenditures and working capital requirements, net divestitures or other favorable cash generating activities. In addition, we are required to make prepayments on the 2003 Credit Facility upon completion of certain transactions as defined in the Credit Facility, including asset sales and issuances of debt or equity securities.

Financial Assurances. We are required to provide financial assurances to governmental agencies under applicable environmental regulations relating to our landfill operations for capping, closure and post-closure costs, and performance under certain collection, landfill and transfer station contracts. We satisfy the financial assurance requirements by providing performance bonds, letters of credit, insurance policies or trust deposits. The amount of the financial assurance requirement for capping, closure and post-closure costs is determined by the applicable state environmental regulations, which vary by state. The financial assurance requirements for capping, closure and post-closure costs can either be for costs associated with a portion of the landfill or the entire landfill. Generally, states will require a third-party engineering specialist to determine the estimated capping, closure and post-closure costs that are used to determine the required amount of financial assurance for a landfill. The amount of financial assurances required can, and generally will, differ from the obligation determined and recorded under generally accepted accounting principles (GAAP).

Additionally, we are required to provide financial assurance for our insurance program and collateral required for certain performance obligations. We do not expect a material increase in financial assurances during 2005, although the mix of financial assurance instruments may change.

At December 31, 2004, we had the following financial assurance instruments in place (in millions):

	Landfill Closure/ Post-Closure	Contract Performance	Risk/Casualty Insurance	Collateral for Obligations	Total
Insurance policies	$ 670.4	$ —	$ —	$ —	$ 670.4
Surety bonds	515.8	494.4	—	—	1,010.2
Trust deposits	77.7	—	—	—	77.7
Letters of credit[1]	505.7	48.7	239.4	120.9	914.7
Total	$1,769.6	$543.1	$239.4	$120.9	$2,673.0

[1] These amounts are issued under the 2003 Revolver and the institutional letter of credit facility under our 2003 Credit Facility.

These financial assurance instruments are issued in the normal course of business and are not debt of the company. Since we currently have no liability for these financial assurance instruments, they are not reflected in the accompanying consolidated balance sheets. However, we have recorded capping, closure and post-closure liabilities and self-insurance as the liabilities are incurred under generally accepted accounting principles. The underlying obligations of the financial assurance instruments would be valued and recorded in the consolidated financial statements if it is probable that we would be unable to perform our obligations under the financial assurance contracts. We do not expect this to occur.

Off-Balance Sheet Financing

We have no off-balance sheet debt or similar obligations, other than financial assurance instruments discussed above and operating leases, which are not classified as debt. We have no transactions or obligations with related parties that are not disclosed, consolidated into or reflected in our reported results of operations or financial position. We do not guarantee any third party debt.

Interest Rate Swap Portfolio

We have entered into interest rate swap agreements for the purpose of hedging variability of interest expense and interest payments on our long-term variable rate bank debt and maintaining a mix of fixed and floating rate debt. Our strategy is to use interest rate swap contracts when such transactions will serve to meet the objectives of our risk management policy. These contracts are not entered into for trading purposes. Our risk management policy requires that we evaluate the credit of our counter parties and that we monitor counter party exposure. At December 31, 2004, counter parties for our interest rate swap portfolio were rated Aa3.

As a result of swap maturities and terminations during 2004, our interest rate swap portfolio fixes 13% of our variable rate interest payment obligation, protecting us from cash flow variations arising from changes in short term interest rates. We believe this is prudent given our capital structure. In 2004, we changed our corporate policy to require that no less than 70% of our total debt be effectively fixed, either directly or through interest rate swap agreements. Prior to the change, the minimum fixed rate policy was 75%. At December 31, 2004, approximately 79% of our debt was fixed, 76% directly, and 3% through an interest rate swap agreement. In the fourth quarter of 2004, we terminated all swaps where we paid a variable rate and received fixed payments. The average interest rate paid under our swap contract at December 31, 2004 was 5.99% compared to LIBOR of 2.15% at December 31, 2004.

In accordance with SFAS No. 133, *Accounting for Derivative and Hedging Activities* as amended by SFAS No. 138, *Accounting for Certain Derivative and Hedging Activities*, a portion of our interest rate swap portfolio was de-designated for hedge accounting purposes at December 31, 2001, all of which matured by June 30, 2004. At the time debt obligations are repaid prior to maturity, we may or may not terminate interest rate swap contracts depending on the reflective economic considerations.

As of December 31, 2004, the Company had a floating to fixed interest rate swap contract with a notional amount of $250 million. This contract will mature in March 2005.

Based on the current maturity schedule of our interest rate swap contract, our current debt balance and assuming the interest rate swap contract is not replaced, we expect that at the end of the first quarter of 2005 we will have approximately 76% of our debt at fixed interest rates.

Contingencies

On August 9, 2004, August 27, 2004, and September 30, 2004, three putative class action lawsuits were filed against us and four of our current and former officers in the U.S. District Court for the District of Arizona. The lawsuits were consolidated into a single action on November 22, 2004. On January 14, 2005, the court entered an order appointing lead plaintiffs but to date, no consolidated suit has been filed.

The complaints assert claims against all defendants under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and claims against the officers under Section 20(a) of the Securities Exchange Act. The complaints allege that from February 10, 2004, to July 27, 2004, the defendants caused false and misleading statements to be issued in our public filings and public statements regarding our anticipated second quarter 2004 results. The lawsuits seek an unspecified amount of damages. This action is in its early stages and we are not able to determine whether the outcome will have a material adverse affect on our consolidated results of operations. We intend to defend the action vigorously.

We are currently under examination by various state and federal taxing authorities for certain tax years, including federal income tax audits for calendar years 1998 through 2003. A federal income tax audit for BFI's tax years ended September 30, 1996 through July 30, 1999 is complete with the exception of the matter discussed below.

Prior to our acquisition of BFI on July 30, 1999, BFI operating companies, as part of a risk management initiative to effectively manage and reduce costs associated with certain liabilities, contributed assets and existing environmental and self-insurance liabilities to six fully consolidated BFI risk management companies (RMCs) in exchange for stock representing a minority ownership interest in the RMCs. Subsequently, the BFI operating companies sold that stock in the RMCs to third parties at fair market value which resulted in a capital loss of approximately $900 million for tax purposes, calculated as the excess of the tax basis of the stock over the cash proceeds received.

On January 18, 2001, the Internal Revenue Service (IRS) designated this type of transaction and other similar transactions as a "potentially abusive tax shelter" under IRS regulations. During 2002, the IRS proposed the disallowance of all of this capital loss. The primary argument advanced by the IRS for disallowing the capital loss was that the tax basis of the stock of the RMCs received by the BFI operating companies was required to be reduced by the amount of liabilities assumed by the RMCs even though such liabilities were contingent and, therefore, not liabilities recognized for tax purposes. Under the IRS view, there was no capital loss on the sale of the stock since the tax basis of the stock should have approximately equaled the proceeds received. We protested the disallowance to the Appeals Office of the IRS in August 2002.

If the proposed disallowance is upheld, we estimate it could have a potential total cash impact of up to $310 million for federal and state taxes plus accrued interest through December 31, 2004 of approximately $81.6 million ($49.0 million net of tax benefit). We also received a notification from the IRS proposing a penalty of 40% of the additional income tax resulting from the disallowance. Because of several meritorious defenses, we believe the successful assertion of penalties is unlikely.

We expect that sometime in the first half of 2005, the Appeals Office of the IRS will uphold the disallowance of the capital loss deduction. If this occurs, we would most likely litigate the matter in a federal court and we would be required to pay a deficiency of approximately $50 million for BFI tax years prior to the acquisition. Thereafter, it would likely take a couple of years before the court reached a decision and it is likely that the losing party would appeal the decision to a court of appeals. A settlement, however, could occur at any time during the litigation process.

The remaining tax years affected by the capital loss issue are currently being audited by the IRS. A court decision on the litigation would resolve the issue in these years as well. If we were to win the case, the initial payment would be refunded to us, subject to an appeal. If we were to lose the case, the deficiency associated with the remaining tax years would be due.

We continue to believe our position is well supported. However, the potential tax and interest (but not penalties) impact of a disallowance has been fully reserved on our consolidated balance sheet. Also, the $50 million payment noted above has been reclassified from long-term liabilities to current liabilities. Therefore, with regard to tax and accrued interest through December 31, 2004, a disallowance would have minimal impact on our consolidated results of operations. The periodic accrual of additional interest charged through the time at which this matter is resolved will continue to affect consolidated results of operations. In addition, the successful assertion by the IRS of penalties could have a material adverse impact on our consolidated liquidity, financial position and results of operations.

In the normal course of conducting our landfill operations, we are involved in legal and administrative proceedings relating to the process of obtaining and defending the permits that allow us to operate our landfills.

In June 1999, neighboring parties and the county drainage district filed a lawsuit seeking to prevent BFI from obtaining a vertical elevation expansion permit at one of our landfills in Texas. In 2001, the expansion permit was granted. The parties opposing the expansion permit continued to pursue their efforts in preventing the expansion permit. In November 2003, a judgment issued by a state trial court in Texas effectively revoked the expansion permit that was granted by the Texas Commission on Environmental Quality in 2001 and required us to operate the landfill according to a prior permit granted in 1988. We have appealed their decision to the Texas Court of Appeals. Operationally, if necessary, we will attempt to obtain bonding that will allow us to continue to operate the landfill as usual during the period of appeals, which may continue two years or longer. If the appeal is not successful, the landfill may become impaired, we may incur costs to relocate waste to another landfill and this matter could result in a charge of up to $50 million to our consolidated statement of operations.

We enter into contracts in the normal course of business that include indemnification clauses. Indemnifications relating to known liabilities are recorded in the consolidated financial statements based on our best estimate of required future payments. Certain of these indemnifications relate to contingent events or occurrences, such as the imposition of additional taxes due to a change in the tax law or adverse interpretation of the tax law, and indemnifications made in divestiture agreements where we indemnify the buyer for liabilities that may become known in the future but that relate to our activities prior to the divestiture. As of December 31, 2004, we estimate the contingent obligations associated with these indemnifications to be de minimus.

Subtitle D and other regulations that apply to the non-hazardous solid waste disposal industry have required us, as well as others in the industry, to alter operations and to modify or replace pre-Subtitle D landfills. Such expenditures have been and will continue to be substantial. Further regulatory changes could accelerate expenditures for closure and post-closure monitoring and obligate us to spend sums in addition to those presently reserved for such purposes. These factors, together with the other factors discussed above, could substantially increase our operating costs and our ability to invest in our facilities.

Related Party Transactions

For a description of related party transactions, see Note 15 to our consolidated financial statements included herein.

Accounting for Stock Options Granted to Employees

We currently account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) as amended. Pursuant to APB 25, we recognize no compensation cost for our stock option grants to employees because the number of shares potentially issuable and the exercise price, which is equal to the fair market value of the underlying stock on the date of grant, is fixed.

Were we to recognize compensation expense based on the fair value of stock options granted, as provided for under SFAS No. 123, *Accounting for Stock Based Compensation*, we would have recognized compensation expense net of tax of $7.0 million, $9.5 million and $13.6 million, or $.03, $.05 and $.07 per diluted share, for the year ended December 31, 2004, 2003 and 2002, respectively.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of the employee services is recognized as compensation cost over the period that an employee provides service in exchange for the award. SFAS 123R is effective July 1, 2005 for us and may be adopted using a modified prospective method or a modified retrospective method. We are currently evaluating the adoption alternatives and expect to complete our evaluation during the third quarter of 2005. If we adopt SFAS 123R under the modified prospective method, the 2005 impact would be to decrease income from continuing operations by approximately $2.5 million, or less than $.01 per diluted share. These amounts represent the net of tax expense previously calculated under SFAS 123 for pro forma purposes for existing stock option awards that will vest in our third and fourth quarters of 2005. This amount does not reflect any new awards or modifications to existing awards that could occur in the future.

Critical Accounting Judgments and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements. The SEC has defined a company's most critical accounting policies as those that are most important to the portrayal of the company's financial condition and results of operations that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates of matters that are inherently uncertain. These judgments and estimates often involve future events. Based on this definition, we have identified the critical accounting policies and judgments addressed below. In addition, management has discussed these accounting policies and judgments with the Audit Committee of our Board of Directors. No one geographic operating segment has a more significant concentration of the critical accounting policies and judgments addressed below. Although we believe that our estimates and assumptions are reasonable, they are based upon information available at the time they are made. Actual results may differ significantly from estimates under different assumptions or conditions. The following critical accounting judgments and estimates are based on our accounting practices in effect during 2004.

We have noted examples of the residual accounting and business risks inherent for these areas that you should be aware of and for you to consider. Residual accounting and business risk is defined as the inherent risk that remains after the application of our policies and processes and is generally outside of our control.

Accounting Area	Accounting Policy and Process Use of Estimates	Residual Accounting and Business Risk
Landfill Accounting	Our landfill investments fall into two categories, each of which require accounting judgments and estimates. • Landfill development asset and related amortization. • Landfill retirement obligation asset resulting from recording our capping, closure and post-closure liabilities and related amortization. Landfill operations are treated as a period expense and are not discussed herein. We use the life cycle accounting method for landfills and the related capping, closure and post-closure liabilities. In life	

Accounting Area	Accounting Policy and Process Use of Estimates	Residual Accounting and Business Risk
Landfill Accounting (continued)	cycle accounting, all capitalizable costs to acquire, develop and retire a site are recorded to amortization expense based upon the consumption of disposal capacity. The cost of the assets and liabilities related to landfills is driven by the technical design that is developed by a third party consultant and approved by a regulatory agency. The technical design includes the construction, capping and closure specifications, the types and quantities of materials required and determination of the landfill capacity. Estimates of future landfill disposal capacity are updated periodically (at least annually) based on third party surveys.	
Landfill Development Asset and Related Amortization	*Site Permit and Technical Design* In order to develop, construct and operate a landfill, we are required to obtain permits from various regulatory agencies at the local, state and federal level. The permitting process requires an initial siting study to determine whether the location is feasible for landfill operations. The studies are typically prepared by third-party consultants and reviewed by our environmental management group. The initial studies are submitted to the regulatory agencies for approval.	Changes in legislative or regulatory requirements may cause changes in the landfill site permitting process. These changes could make it more difficult or costly to obtain a landfill permit. Studies performed by third parties could be inaccurate which could result in the revocation of a permit. Conditions could exist that were not identified in the study which make the location not feasible for a landfill and could result in the revocation of a permit. Revocation of a permit could materially impair the recorded value of the landfill asset. Actions by neighboring parties, private citizen groups or others to oppose our efforts to obtain permits could result in revocation or suspension of a permit which could adversely impact the economic viability of the landfill and could materially impair the recorded value of the landfill.